REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2004

Your Directors submit their Report for the financial year ended 31st March, 2004.

SOCIO-ECONOMIC ENVIRONMENT

The year 2003-04 witnessed a return to high rates of economic growth in India, with Quarter 3 registering the highest ever GDP growth of 10.4%. While all three sectors contributed to the significant economic growth, agriculture rebounded from the effects of the unprecedented drought of the previous year to lead the recovery with a record increase of 16.9% in the third Quarter, thus providing the basis for realising GDP growth of over 7% for the full year 2003-04.

Volatility in agricultural growth, particularly since the 1990s, continues to impact overall economic growth. The trend rate of growth in agriculture is a little over 2.5% since the nineties, compared to about 7% for the non-agricultural sector, leading to a declining share of agriculture in total GDP to barely 23% currently. Yet, agriculture predominantly supports nearly 72% of India's population living in rural areas. Sustaining high rates of economic growth in the future would necessarily require an effective growth strategy for rural India, founded upon improved productivity and value addition in agriculture.

Reforms in the agri sector are not only necessary to grow demand for industrial products and services, but also to strengthen competitiveness of Indian agriculture in an increasingly globalising market. Despite being endowed with the highest arable and irrigated land in the world, Indian agricultural productivity in most crops is low – about half to three-fourths the world average, and even lower compared to the top agri produce exporting countries. Reform priorities at Central and State levels need to encompass investments in upgrading social and physical infrastructure, creating efficient linkages to domestic and world markets, strengthening of institutions including those offering risk management, overhaul of food safety and land use laws, domestic tax harmonisation for barrier-free movement of agri produce to benefit from a larger Indian common market and promotion of agricultural research focused on empowering the ubiquitous small farmer through effective extension services. Further, wasteland development through promotion of wood and forest based industry can convert over 30 million hectares into productive assets, while simultaneously addressing serious issues relating to biomass depletion, water security, ecological balance and biodiversity.

Concurrent with reforms to enhance agricultural productivity, private and public investment needs to be mobilised to generate off-farm employment and thereby absorb displacement of labour inherent in such reform. In this context, the slowdown of investment growth over the last six years, particularly by the public and private corporate sectors, is a matter of concern; even more so since the ratio of investment to GDP at 23.7% has fallen below that of savings in 2002-03. Public-private partnerships in investment are critical to realising the significant economic multiplier associated with the agri sector. In line with this rationale, your Company, with its deep agri sector linkages nurtured over time, is engaged in enlarging its contribution to the farm sector through investments that leverage information technology and bio-technology.

In an environment of rapidly escalating competitive challenges, your Company has sought to invest across the value chain, where feasible, towards acquiring world-class competitive capability in each of the businesses in its portfolio. The results of these strategic interventions are set out in the pictorial section of this Report, capturing ITC's progressive transformation into an internationally competitive organisation, creating growing value for all stakeholders.

COMPANY PERFORMANCE

During the year 2003-04, while the tourism sector witnessed a welcome return to growth, incipient signals of an upturn in the FMCG sector were visible only towards the end of the financial year. The strengthening rupee placed additional stress on the competitiveness of agri exports. In these circumstances, your Company posted yet another year of handsome growth, testifying to the

robustness of the corporate strategy of pursuing multiple growth drivers.

Gross Turnover for the year 2003-04 grew by over 7% to Rs.11,815 crores. Pre-tax profit increased by nearly 13% to Rs.2,319 crores, while Post-tax profit at Rs.1593 crores registered a growth of more than 16%. Earnings Per Share for the year stands at Rs.64.34. Cash flows from Operations were Rs.2683 crores during the year.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs.20.00 per share (previous year Rs. 15.00 per share) for the year ended 31st March, 2004. The cash outflow in this regard will be Rs. 558.83 crores (previous year Rs. 418.84 crores) including Dividend Tax of Rs. 63.47 crores (previous year Rs.47.57 crores). Your Board further recommends a transfer to General Reserve of Rs. 1000 crores (previous year Rs.1000 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.387.84 crores (previous year Rs.343.88 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

	2004	2003
a) Profit Before Tax	2319.06	2056.19
b) Income Tax	726.21	684.84
c) Profit After Tax	1592.85	1371.35
d) Add : Profit brought forward from previous year	343.88	325.87
e) Transfer from Hotel Foreign Exchange Earnings Reserve	4.00	9.00
Less : Transfer to Hotel Foreign Exchange Earnings Reserve	5.00	4.00
f) Release from Investment Allowance Reserve	—	—
g) Surplus available for Appropriation	1935.73	1702.22
h) Transfer to Debenture Redemption Reserve	—	—
i) Less: Transfer from Debenture Redemption Reserve	10.94	60.50
j) Transfer to General Reserve	1000.00	1000.00
k) Proposed dividend for the financial year at a rate of Rs. 20.00 per Ordinary Share (previous year Rs.15.00 per Ordinary Share)	495.36	371.27
Income Tax on proposed dividend	63.47	47.57
l) Retained profit carried forward to the following year	387.84	343.88
	1935.73	1702.22

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a key priority. All businesses in the ITC portfolio are mandated to engage with overseas markets in a bid to test competitiveness and seek growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last decade amounted to nearly US$2.2 billion, of which agri exports accounted for about US$1.6 billion. Earnings from agri exports is an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2003-04, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs.1207 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs.1078. crores. Your Company's expenditure in foreign currency amounted to Rs.447 crores, comprising purchase of raw materials, spares and other expenses at Rs.346 crores, and import of capital goods at Rs.101 crores.

Details of foreign exchange earnings and outgo are provided in Schedule 19 to the Accounts.

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS (FMCG)

FMCG – Cigarettes

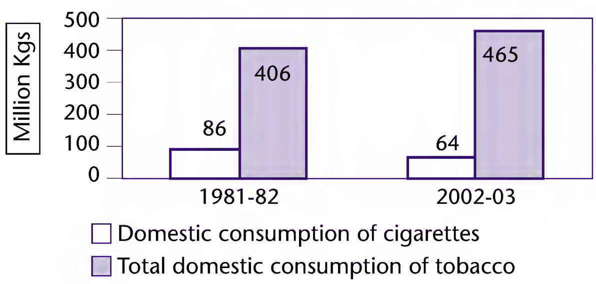
The resurgence in the economy coupled with stability in excise duty rates on cigarettes enabled the cigarette industry to post a modest volume growth during the year under review and marginally recover from the perilous 19% drop in demand between 1997-98 and 2001-02. Your Company's focused initiatives relating to quality enhancement, value addition, increased productivity and proactive responsiveness to consumer needs led to improved market share and market standing. Sales for the year grew by about 5% on the back of a 3% growth in volumes. Despite this growth, the sale volume of 65.39 billion sticks is still below the level prevalent in 2000-01 prior to the steep imposition of the National Calamity Contingency duty.

The cigarette industry in India continues to operate in an environment of rapidly escalating challenges, particularly in the areas of taxation and regulations relating to communication and consumption. The rush of regulations, dictated by circumstances obtaining in more developed markets, together with prolonged punitive and discriminatory taxation have had the effect of being directed almost exclusively at cigarettes, thereby stifling cigarette consumption in India in comparison with other forms of tobacco consumption. Whilst seeking to reduce aggregate consumption volume of all forms of tobacco over time, regulations should not impede the maximisation of economic value per unit of consumption.

Unlike in international markets, in India it is a serious misconception to equate tobacco consumption with cigarettes. On the average, cigarettes account for about 85% of tobacco consumption globally, with an even higher share of almost 100% in large markets like China. In sharp contrast, cigarettes account for only 14% of tobacco consumption in India, well below the share of over 60% in neighbouring countries like Pakistan with roughly similar socio-economic circumstances. Being one of the smallest constituents of tobacco consumption in India, the per capita consumption of cigarettes is among the lowest in the world at 119 sticks per annum against a world average of 1267 sticks. This structure of the tobacco industry in India has progressively become even more skewed over time, with the share of cigarettes declining from 21% two decades ago to about 14% currently.

High rates of taxes on cigarettes, in excess of 130% of the net value of the product, have rendered cigarettes unaffordable to the majority of tobacco consumers in the country. The effective tax per kg of tobacco consumed as cigarettes is about 30 times more than that of tobacco consumed in other forms due to exemptions enjoyed by the other forms and the fragmented nature of that industry which poses difficulties in tax collection. This inequity in taxation on tobacco products compels consumers of cigarettes to contribute more than 85% of the revenue collections from the tobacco industry, besides causing a progressive migration from cigarettes to other lower value forms of tobacco consumption. Apart from the adverse impact on the Exchequer, the reducing base of domestic cigarette consumption discourages investment in R&D and quality enhancement of tobacco varieties and thereby undermines the export potential of high value Indian cigarette tobaccos. Discriminatory taxation on cigarettes has thus served to constrict demand for cigarettes, even as the total consumption of tobacco in the country continues to grow.

Domestic Tobacco consumption in India on the rise– Only Cigarette consumption drops



Source : Tobacco Institute of India

The effect of punitive and discriminatory Central taxes on cigarettes stands further compounded by a plethora of State level taxes in the form of 'Luxury and Entry' Taxes. Such levies continued unabated during the year, with Uttar Pradesh enhancing the rate of entry tax from 3% to 5% and Bihar imposing entry taxes on raw materials used in the manufacture of cigarettes. The burden of local taxes on an already highly taxed product, subjects cigarettes to the

detrimental effect of cascading taxes. Further, differing rates of taxes across States negate the advantages inherent in a potentially larger Indian common market. Recognising the high degree of sensitivity of taxes on cigarettes, the principle of uniform, single point taxation was embodied in the Agreement between the Centre and the States at the National Development Council meeting of 1955 that substituted State-level taxes on cigarettes with additional excise duty. The levy of Luxury and other taxes on cigarettes by the States is tantamount to an infringement of this Agreement. Your Company has contested the matter before several High Courts and the Supreme Court, and is hopeful of a positive outcome. As stated in last year's Report, the levy of Entry Tax in Tamil Nadu and Luxury Tax in Andhra Pradesh, Kerala, Tamil Nadu and Delhi have been stayed by the respective High Courts.

In the context of the proposed reform of state level taxation to replace the existing Sales Taxes with Value Added Tax (VAT), the amendment to the Additional Excise duty Act by the Finance Act 2003 appears to cognise for the deleterious effect of cascading taxes by prescribing 'transaction value' as the basis for a 4% levy. In view of the highly taxed nature of the product and the sensitivity to varying tax rates, ideally a single point levy on cigarettes through the existing specific duty mechanism of Central Excise would best serve the key canons of taxation namely buoyancy, simplicity, certainty and efficiency in collection. However, if the proposed VAT is imposed, the intended objective of creating a large unified market would only be realised, if VAT replaces all other State level taxes.

It is evident that high rates of taxes on cigarettes have neither imparted buoyancy to tax revenues from the tobacco sector nor curtailed overall consumption. It is now a well established principle that sustainable tax buoyancy can be realised only from an expanding tax base. **This principle stands reinforced by the experience of China where, despite their per capita incomes being twice as much as India's, the tobacco sector generates 10 times the revenue collection from the Indian cigarette industry by levying taxes at rates which are much lower than that in India.**

Moderation in rates of taxes, coupled with the aspiration of tobacco consumers to upgrade consumption, can multiply the share of cigarettes in India even in a shrinking basket of tobacco consumption. Consequently, the tax base of the sector can stand significantly enhanced, yielding for the Exchequer the much needed resources for critical priorities.

High levels of taxation of domestic cigarettes also tend to fuel the menace of contraband. It is estimated that contraband is the fastest growing segment of the Indian cigarette market in view of the large illegal tax arbitrage opportunities. Since tax is avoided in the country of origin and evaded in the destination country, the economics of contraband are overwhelmingly stacked against the domestic industry. Examples abound where contraband cigarettes are available in the domestic market at prices well below the Central Excise duty component alone in respect of equivalent domestic cigarettes. In the face of such unfair competition the domestic cigarette industry is compelled to commit substantial investments towards making Indian products more attractive to consumers than smuggled products, particularly at the upper end. It is estimated that contraband cigarette trade in India sets the country back by nearly Rs.2000 crores annually through loss of tax revenue and unaccounted outflow of foreign exchange. Import of international cigarette brands by some players compounds the menace by providing another avenue to the trade to pass off much larger quantities of contraband as legitimate imports. As stated in the Report of earlier years, your Company supports a review of the policy related to imports of cigarettes in order to minimize the serious economic injury caused by smuggling. At a minimum, cigarettes should be placed under the 'restricted list' requiring license prior to import and the facility of importing cigarettes for re-export should be withdrawn. Recognising the burgeoning leakages of revenue due to smuggling, the Kelkar Committee on tax reforms recommended that the basic customs duty should be raised to the WTO bound rate of 150% from the current rate of 30%. Your Company continues to make comprehensive recommendations in this regard in the belief that policy reform together with strengthened enforcement machinery can go a long way in retarding the growth of contraband and correcting the unfair disadvantage to the domestic cigarette industry.

India is the second largest grower of tobacco in the world with attendant large-scale employment in the farm sector. According to the 22nd Report of the Parliamentary Committee on Subordinate Legislation (10th Lok Sabha), 6 million farmers and 20 million farm workers are involved in tobacco cultivation. Further, tobacco is also an important source of livelihood for over one million small retailers. Therefore, regulation of the tobacco industry in India needs to be pragmatic and equitable.

Notwithstanding the economic significance of tobacco, India became one of the first signatories to the Framework Convention on Tobacco Control (FCTC), which is essentially driven by some developed nations where substantial employment is not linked to the growing of tobacco. The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003, (COTPA) is being implemented in a phased manner with effect from 1st May 2004. The provisions of the Act dealing with banning advertisement and communication relating to cigarettes and other tobacco products have been notified. While your Company welcomes legislation which is practical, implementable and non-discriminatory, the implementation of COTPA would have serious, albeit unintended, repercussions on the domestic cigarette industry in particular and on the large section of the Indian population dependant on tobacco for their livelihood.

While COTPA imposes a ban on advertising by the domestic industry, foreign brands continue to be advertised in the Indian market through satellite television channels and promotion of international events such as Formula 1 and MotoGP, thereby usurping an unfair advantage and providing a fillip to contraband trade. The Act places severe restrictions on the size, number and content of tobacco advertising at shops where tobacco products are legitimately offered for sale. Such restrictions deny adult consumers the right to knowledge about products, thereby preventing informed choice, and in turn altering the basis of competition from consumer choice to trade push. This structural shift will progressively erode surpluses available for investment in product quality, adversely impacting farm incomes and export earnings from tobacco.

While COTPA seeks to discourage consumption of all forms of tobacco through a ban on advertising, it would have the effect of regulating only the cigarette segment. While cigarette volumes declined by 19% between 1997-98 and 2001-02 despite advertising being allowed, consumption of non-Cigarette tobacco products grew during the same period although these were hardly advertised.

In a developing country like India where the livelihood of millions is linked to growing tobacco, a viable strategy is required to address the displacement of labour entailed in curtailment of tobacco consumption. In fact this issue was highlighted by the Parliamentary Committee engaged in reviewing the Bill based on which COTPA was enacted. The challenge of creating alternate livelihood for tobacco farmers is further compounded by the fact that in most of the tobacco growing areas of Andhra Pradesh no other economically viable crop can be grown. This aspect has been confirmed by a study by the Central Tobacco Research Institute (CTRI) on the impact of the crop holiday of 2000-01. Four-fifths of the area reverted to FCV tobacco cultivation in the year following the crop holiday.

Since the major portion of the tobacco industry in India is "unorganised", with a significant proportion of their production being unpackaged and unlabelled, implementation of COTPA's stringent labelling provisions would only serve to hasten the shift away from cigarettes to lower value products without effecting any reduction in overall tobacco consumption.

Your Company, as a responsible corporate citizen, has put in place systems to ensure full compliance with the provisions of COTPA. Your Company also continues to dialogue with relevant authorities, directly and through industry associations, in a bid to evolve uniform national legislation that equitably addresses the interests of all stakeholders of the second largest tobacco producing nation in the world.

In the face of the extremely challenging environment, your Company continues its strategic focus on product quality, technology upgradation, productivity improvement and enhanced value addition to brands. Investments of nearly Rs.1100 crores over the last eight years in state-of-the-art

technology enables your Company to offer products to Indian consumers that represent the finest global quality standards. Product innovation, spurred by deep consumer insights nurtured over time, reinforced your Company's leadership position in the industry. An array of packaging formats were launched during the year in key value segments, enlarging the portfolio of world-class products. 'Insignia', launched in the unique Shoulder Box packaging style, redefined the premium segment and strengthened the association of your Company's brands with superlative quality. 'India Kings' became the first Indian brand to be offered to consumers in a state-of-the-art international Contour pack, significantly reinforcing its premium imagery. The ultra premium Bevelled Edge packaging of 'Classic Milds' introduced last year has now established this brand's superiority in its competitive space which includes international and contraband offers. Buoyed by this experience, consumers of 'Classic Menthol' were also offered their product in this packaging format. A new Wave pack was introduced during the year in the 70-75 mm filter category and is rapidly gaining consumer acceptance.

In addition to investments in brands to provide world-class standards to the Indian consumer, your Company is committed to continuously improving in-house standards of environment, occupational health and safety. This commitment continues to earn international recognition. **The production facilities at Bangalore, Saharanpur and Kidderpore were awarded the prestigious Gold Award for Occupational Safety by ROSPA. The Saharanpur unit won the Sword of Honour and the 5 Star Award from the British Safety Council while the Bangalore and Kidderpore units earned the 5 Star Award and the 4 Star Award respectively. The Kidderpore facility also became the first cigarette factory in India to earn the OHSAS:18001 certification for excellence in Occupational Health and Safety.**

The trade marketing and distribution capabilities of your Company, widely acknowledged as industry benchmarks, have been further expanded to cater to your Company's growing portfolio of FMCG products. Concurrently, your Company's R&D competencies were enhanced, creating the Integrated Group Research and Development Centre with capabilities to lead a wider gamut of R&D initiatives in the FMCG sector.

It is a measure of deep satisfaction that consumers continue to repose trust in your Company. ITC's brands today account for three of the top five FMCG brands in the country. Every achievement serves to deepen your Company's resolve to get even closer to the consumer by redefining standards of excellence. Given an enabling environment in terms of moderate tax rates and an equitable and effective regulatory framework, your Company is well equipped to consolidate its pre-eminent position as the market leader.

FMCG – Others

Growing disposable incomes and increased media exposure are ushering in a revolution in consumer behaviour, presenting exciting growth opportunities for companies such as yours. While the FMCG industry in recent times has been dominated by sluggish topline growth, pressure on margins and price-led competition, the broader underlying trends indicate the nature of opportunity. First, the composition of India's private final consumption expenditure (PFCE) reflects a secular shift away from basic items of expenditure towards value added products and services. For example, within the foods basket, while the share of basic cereals and pulses is declining, the share of non-staple foods continue to grow, accounting for about 72% of total food consumption. Total expenditure on foods continues to grow, posting real annual increase of 3.9% since 2000. Rapid growth in the packaged foods segment in recent years further vindicates the trend towards value added products. Secondly, the FMCG sector over the years thrived on expansion of distribution, both in urban and rural markets, leading to fears of saturation. It is estimated that rural markets alone have 3.6 million retail outlets, roughly 1 per 200 people. Yet there is no organized marketing and distribution in 87% of India's villages, which are home to 50% of the rural population. Low population density and poor infrastructure pose daunting last mile challenges, rendering costs of customer acquisition prohibitively expensive. This last mile represents a significant opportunity for those who can defray logistics costs efficiently over multiple transactions. Thirdly, changing demographics indicate an increasingly young consuming class. Six out of ten households have a post-liberalisation child and nearly 60% of the population are in the age group 15-59. This trend

has significant implications on lifestyle aspirations, consumption capability and consequently for the value propositions of FMCG offers. Fourthly, the compound annual growth of 3.2% over the last five years in per capita income is unevenly spread across income segments. The bulk of the rural population constituting the bottom of the economic pyramid represents a vast potential consumer base. Leveraging this potential opportunity calls not only for appropriate and urgent agricultural reforms, but also unique business models anchored on low cost demand fulfillment capability.

Your Company, with diverse competencies residing in its various businesses, is ideally positioned to leverage the significant growth opportunity inherent in these broader trends. It is the strategic intent of your Company to secure long term growth by synergising and blending this pool of competencies to create new engines of growth. Investments in product development and design complement the deep consumer insights gained by your Company over time to create a range of value added FMCG products across categories and segments. Your Company's Integrated Group Research and Development Centre at Bangalore and the state-of-the art Master Design Facility at Gurgaon provide cutting edge capability in product development and innovation thereby creating a franchise in the minds of consumers as providers of world-class value added products. Each category within this Business Segment of your Company also serves to widen and deepen the FMCG trade marketing and distribution capability, which already services about 1.5 million convenience outlets. Further, your Company's pioneering e-Choupal model (discussed later in this Report) is engaged in addressing the issues of the last mile in rural India, thereby providing the foundation for unmatched delivery capability that can encompass not only FMCG but also a host of other products and services. As one of the largest users of consumer research in the country, your Company is constantly engaged in creating products in anticipation of consumer needs, creating in the process competitively superior offerings straddling a wide range of segments from staples to lifestyle products. Towards this end, your Company continues to invest in people systems and proprietary processes and protocols. Your Company is also engaged in creating low cost demand fulfillment capacity by upgrading capabilities across value chains. This business model envisages retaining critical elements of each value chain in-house while manufacture is outsourced largely to small and medium enterprises (SMEs). Such a model enables ITC to draw upon key internal competencies including agri sourcing skills, cuisine knowledge and services expertise, paperboard and packaging domain knowledge, state-of-the-art IT services capability and the well known trade marketing and distribution strength to enhance the competitiveness of the entire value chain.

This strategic approach enabled your Company to make rapid progress towards establishing market standing in each of the chosen categories. Turnover nearly trebled to Rs. 304 crores during 2003-04. The Segment Report set out in Schedule 20 to the Accounts reflects the rapid scale up of operations. Segment Results reflect the start-up phase of these products and largely comprise costs associated with infrastructure, product development and brand building. Brief highlights of progress in each category are set out below.

Branded Packaged Foods

Your Company continued to augment its product range by leveraging in-house capability of the Integrated Group Research and Development Centre at Bangalore. The portfolio now comprises 45 value added products catering to a wide range of consumer needs. In order to assure consumers of the highest standards of food safety and hygiene, your Company is engaged in assisting outsourced manufacturers in implementing world-class hygiene standards through HACCP certification. The unwavering commitment to internationally benchmarked quality standards enabled your Company to rapidly gain market standing in all its 5 brands.

'Aashirvaad' continues to grow rapidly and has already established leadership as the Number 1 branded atta among national branded players within barely two years of launch. With the launch of ready-to-cook pastes in March 2004, the 'Aashirvaad' assurance of quality now extends to ready-to-eat foods, ready-to-cook pastes, atta and salt. 'Sunfeast' biscuits were launched during the year to widespread market acceptance. Products under this brand are

now available in over 150 markets with national rollout expected to be completed during 2004-05. Butterscotch cream and orange marie variants, introduced for the first time in the Indian market, represent further examples of product innovation. Your Company is engaged in gearing the supply chain to cater to the rapid growth in consumer demand and expects to complete all India coverage during 2004-05. As stated in this Report last year, significant market presence was rapidly built in the Confectionery segment with 'mint-O' and 'Candyman'. Learnings from such a rapid build up are being assimilated with a view to enhancing market standing and increasing market penetration in an intensely competitive market. Deposited candies were added to the 'Candyman' range in two flavours – butterscotch and orange. The offerings of regular varieties under 'Candyman' also stood expanded with the introduction of orange and pineapple flavours. 'Kitchens of India', your Company's gourmet food brand, serves the role of being a category creator in a segment that is expected to grow over time in line with increasing affluence and sophistication of the Indian consumer. During the year, the product range under this brand was expanded with the introduction of specialty pastes in the premium ready-to-cook segment.

Lifestyle Retailing

In line with evolving consumer preferences your Company's Lifestyle Retailing business continued to enhance the portfolio of offerings in three distinct usage segments, namely formal wear, relaxed wear and evening wear, to provide discerning consumers with unmatched variety and vitality. The expanded 'Wills Classic' range, which caters to the high potential formal wear segment, reinforced its exclusive, world-class brand proposition, accounting for nearly 40% of turnover of the 30 select 'Wills Lifestyle' stores offering this range. The launch of the 'Wills Clublife' premium evening wear range in select stores enabled fuller representation in the fashion portfolio. In the highly competitive arena of branded apparel, Wills Lifestyle is gradually gaining acceptance as a preferred fashion destination. In order to enhance accessibility to the consumer, brand availability was extended during the year to chosen high profile Large Format Retailers and Multi-Brand outlets in the country.

Apart from consolidating presence in the premium Western ready-to-wear segment, your Company also registered progress in the high growth branded mid-price segment. The size of this segment is estimated to be about Rs. 2400 crores with annual growth rates in the region of 10%. Your Company, which made a national entry into this segment last year with a range of high quality, attractively priced men's wear under the brand 'John Players', consolidated its presence in over 3000 outlets up to March 2004.

The business geared up the supply chain to address the challenge of the significantly higher scale of operations, in terms of both product range and outlets serviced. The state-of-the art Master Facility in Gurgaon continues to engage in R&D activities to offer superior products to the consumer, besides facilitating prototyping of designs.

The business' internationally benchmarked quality continues to earn industry recognition, with 'Wills Lifestyle' winning the 'Most Admired Exclusive Brand Retail Chain of the Year' at the Images Fashion Awards 2003.

Greeting, Gifting and Stationery

Focused improvement in product quality and supply chain processes enabled the Greeting, Gifting and Stationery Business (GGSB) capture 20% market share in the greeting cards segment in 2003-04, with value added products now available in 12000 outlets across 700 markets. The strengthened design capability was corroborated by increasing retailer confidence, with 395 stores opting to partner the business as 'Expressions' Valued Customers. The business also established new value chain partnerships encompassing design, and manufacturing to enhance efficiency through streamlined back-end operations. The social cause range of cards introduced in partnership with the SOS Children's Villages of India is now established amongst the top social cause greeting card brands in the country.

The year 2003-04 also witnessed the launch of the 'Paperkrafts' and 'Classmates' range of notebooks across major markets, leveraging your Company's capability in high quality paper manufacture to offer superior products at competitive prices. Market

response has been encouraging, with the range exhibiting potential to garner a sizeable share of the Rs.500 crores fast growing stationery market. The expanding range of world-class products, the aggressive penetration in the domestic market and the progressive entry into export markets provide the platform for addressing the growth challenge over the medium term.

Safety Matches and Incense sticks

Your Company possesses many a strength that can be leveraged to enhance the competitiveness of the small scale and cottage sectors and thereby give expression to your Company's philosophy of creating shareholder value through serving society. Safety Matches and Incense sticks represent two such endeavours. The product development capability of the Integrated Group Research and Development Centre, blended with your Company's paperboard and packaging domain expertise and the FMCG trade marketing and distribution capability, provide the wherewithal to service evolving consumer needs for value added products in fragmented markets estimated at over Rs.2000 crores.

Your Company commenced marketing of high quality Safety Matches sourced from the small scale sector in August 2002 under your company's brands, 'i Kno', 'Mangaldeep', 'Vaxlit', 'Delite' and 'Aim'. The 'Mangaldeep' brand of incense sticks was launched in December 2003 in varied fragrances at different price points and pack combinations in unique in-house developed 'fragrance locked' packaging. **Visibly superior product quality coupled with rapid market rollout enabled growing market share, with 'Aim' achieving the distinction of becoming by far the single largest match brand in India.** Encouraged by the consumer response in the domestic market, your Company commenced its forays into international markets through export of safety matches to the U.S.A. and West Africa.

Your Company continues to support the competitiveness of the small scale and cottage sectors through induction of appropriate technology and best practices. As at the end of the period under review, 44 such upgraded small scale units supplied high quality safety matches to your Company. In pursuance of its abiding social commitment, your Company forged partnerships with select NGOs to train economically disadvantaged women in rolling agarbattis and thereby provide vocational opportunities.

Each of these business initiatives, while seeking to establish leadership in India's emerging growth markets, also serves to expand the depth and width of ITC's trade marketing and distribution capability. The expanded trade marketing capabilities, blended with a state-of-the-art information technology transaction backbone and the e-Choupal rural network, provide the basis for a low cost, broadband fulfilment capability for any consumer product. Such fulfilment capability can be likened to an FMCG super highway which can serve as a basis for powerful partnerships with other FMCG brand owners who wish to obtain the benefits of such a wide and deep trade marketing and distribution capability. Over the long term, such strategic partnerships are expected to be a basis for growth in revenues and shareholder value.

B. HOTELS

Buoyancy in foreign arrivals flowing from the smart economic growth enabled the hotels industry in India post robust growth in 2003-04. After five years of sluggishness, foreign tourist arrivals grew in 2003 by a robust 15.3%. Consequently, foreign exchange earnings from this sector for the country crossed Rs.17000 crores, representing an increase of 23.3% over the previous year. According to a recent report of the World Travel and Tourism Council, India is set to become the world's second fastest growing travel economy in the coming decade, after Turkey. Similar outlook is also contained in acclaimed publications like the 'Conde Nast Traveller' and the 'Lonely Planet', which have declared India as one of the world's most favoured tourist destinations.

Realising the importance of the Tourism and Hotels sector in contributing to economic growth and to significant employment generation and foreign exchange earnings in particular, a number of policy level initiatives were taken further to those contained in the Union Budget 2003 and the Exim policy thereafter. Rs.2500 crores has been earmarked for setting up world-class convention centres. Apart from enabling cheaper domestic air travel, an open

sky policy for all ASEAN countries is being contemplated along with planned outlays towards upgradation of airport infrastructure. Earnings from incoming tourists is targeted at Rs. 22000 crores for 2004 – a growth of nearly 30%. Even at these levels, travel and tourism would constitute barely 2% of India's GDP, well below the world average of 10.7%.

Despite an overall slowdown in investment over the last few years, growth in room supply has kept pace with growth in GDP. In line with this trend, even at conservative GDP growth assumptions, the current room supply of approximately 90,000 rooms would need to increase to at least 130,000 rooms by 2008. The accommodation sector therefore presents attractive growth opportunities for companies like yours that can sustain the impact of capital intensity through the strength of its balance sheet.

Your Company is close to accomplishing the initial objective of completing the ITC Welcomgroup chain in the super deluxe segment in key business locations. The ITC Grand Central, your Company's second property in Mumbai, will open to guests by end 2004. Peaking at a height of 127 meters, ITC Grand Central will be one of the tallest hotels in India. Located in the heart of Mumbai, this property is well placed to serve the upmarket business traveler, adding yet another world-class offering from the ITC Welcomgroup chain. Investments also continue to be directed at providing enhanced value addition to guests and to keep properties contemporary. In line with international trends, the ITC Grand Maratha commissioned a state-of-the-art spa that is fast gaining popularity. A renovation and product upgradation programme is under way at the ITC Maurya Sheraton, New Delhi towards raising even higher the quality standards that enable this hotel to register the highest number of footfalls in the country. Each of the hotel properties of your Company represents a unique benchmark in product excellence. The uncompromising attention to providing the finest hoteliering standards even during the prolonged downturn in the industry was rewarded with growing guest preference. During 2003-04, your Company's hotels business posted a handsome growth in revenues of 33%. Segment Results contained in Schedule 20 to the Accounts reflect the turnaround despite the gestation impact of Rs.829 crores of assets representing new properties and projects. ITC Sonar Bangla at Kolkata, India's only business resort, widely acknowledged as being amongst the finest business hotels in Asia, posted positive operating cash flows in its first full year of operations, thus carrying forward the trend set by the ITC Grand Maratha at Mumbai.

Successful execution of the ambitious investment programme over the last seven years enabled ITC Welcomgroup regain its position as the fastest growing premium hotel chain in the country. The service edge of the ITC Welcomgroup chain and the land bank in future growth markets like Bangalore and Chennai represent formidable assets that strengthen the ability of your Company's hotels business to address future growth challenges. Your Company is therefore well positioned to sustain leadership in this infrastructure industry, the growth of which is perhaps one of the best indicators of the nation's economic progress.

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment posted another year of growth as set out in the Segment Report annexed as Schedule 20 to the Accounts. Segment Revenue grew by nearly 8% to touch Rs.1253 crores. Segment Results improved by nearly 2% to Rs.230 crores despite pressure on margins arising from steep increase in raw material costs, inventory corrections in certain value added grades and once-off maintenance downtime. The Segment generated strong operating cash flow of Rs.309 crores.

Paperboards & Specialty Papers

Production during the year 2003-04 touched 234663 Mt compared to 233574 Mt during the previous year. Overall sales including interdivisional sales increased to 230980 Mt. Sales of Value Added Paperboards grew by 18% to 67780 Mt from 57653 Mt.

During 2003, the Indian paper and paperboards industry realised the projected medium term growth of around 6%, well above the 2% growth of the world paper and paperboard industry. Increasing sophistication of the Indian consumer and growing

intensity of competition necessitate higher levels of quality in packaging and consequently in paperboard. The majority of the 100 players constituting the 1 million tonne domestic paperboard industry are faced with the urgency of upgrading technology to meet quality expectations. Your Company's world-class integrated mill at Bhadrachalam is the most contemporary paperboard manufacturing facility in India. The mill is the leader by far in the high growth Value Added Paperboards segment, which caters to the need for high quality packaging in sectors such as pharma, personal products and foods.

Accelerating growth in Value Added Paperboard grades necessitated curtailment of capacity allocation for recycled board grades, the demand for which also continues to grow albeit at lower rates. In order to service customers of recycled grades, your Company acquired the paperboards business of Bilt Industrial Packaging Company Limited in March 2004 as a going concern by way of slump sale. The business included, inter alia, the 65000 Mt per annum recycled boards manufacturing facility in Coimbatore District, Tamil Nadu. With this acquisition, your Company now operates the top three paperboard machines in the country in terms of technology, thereby strengthening capability to service the growing demand for quality paperboards in the domestic market, as well as to widen product footprints in export markets.

Apart from conserving foreign exchange in excess of Rs.120 crores during the year through enabling import substitution, your Company maintained export earnings in dollar terms compared to the previous year despite constraints of capacity and the strengthening Rupee. The rupee equivalent of exports in FOB terms for 2003-04 were marginally lower at Rs.90.53 crores against Rs.99.67 crores in the previous year. The world-class paperboards of your Company now command a presence in over 40 countries including Turkey, Greece, Bulgaria, Sri Lanka, Bangladesh, Malaysia, South Africa, UAE, UK & Iran. **The business received the Capexil award for exports yet again.**

The business is also engaged in executing an expansion programme involving installation of a paperboard machine of 75000 Mt per annum capacity at Bhadrachalam. The machine is slated to be operational by the last quarter of 2004. The project also envisages an 18 MW energy block. The commissioning of this machine would strategically position your Company to leverage its world-class capability in paperboards towards realizing the vision of becoming a leader in the Afro-Asian region.

Alongside investment in augmenting capacity and inducting cutting edge process technology, your Company remains deeply committed to establishing globally benchmarked standards of environment management. Ahead of the standards of the Ministry of Environment and Forestry, your Company set up an Elemental Chlorine Free Pulp ('ECF Pulp') mill at Bhadrachalam. This pulp mill is the only one of its kind in the country and conforms to world-class environmental standards. Besides contributing to environment management, the mill also enhanced cost competitiveness. Commissioned during 2002-03, the pulp mill achieved 100% capacity utilization during the year. The superior quality of the "ECF pulp" enriched the quality of value added products, facilitated market expansion of superior value added grades of paperboard and substituted pulp imports. **ITC's demonstrated concern for the environment earned global recognition with the business winning the Golden Peacock Award 2003 from the World Environment Foundation.**

In an energy intensive industry like paper and paperboards, your Company's energy management expertise is a source of distinct competitive advantage in the Indian market, with nearly 95% of the mill's energy requirements being met out of captive co-generation. **Your Company's continuing focus on energy management (details set out in the Annexure to this Report) enabled the business to receive, for the third year in succession, the "Excellence in National Energy Conservation (ENCON)" award from the Confederation of Indian Industry.** In this context, the move to levy a cess on captive generation of electricity in Andhra Pradesh impedes progress towards international competitiveness, particularly since co-generation conserves resources that would otherwise be wasted.

As stated in this Report in earlier years, your Company is committed to a unique wood fibre strategy that seeks to address the competitiveness

of the paperboards value chain and simultaneously contribute to the broader issues of wasteland development and rural employment. This pioneering endeavour envisages leveraging in-house bio-technology based research to make available high-yielding clones and seedlings of the desired pulp wood species, together with extension services to farmers engaged in plantation of pulp wood on their marginal private wastelands. The quality of these clones and seedlings has been tested for effectiveness in more than 17500 hectares of plantations. During 2003-04, the scope and pace of such plantations increased significantly. 31 million saplings were planted compared to 20 million and 3.9 million respectively in the previous two years. The learnings accumulated in the successful cloning of Eucalyptus were extended to other species, notably Subabul. Your Company's ongoing research programme also draws upon the biotechnology capabilities of the Council for Scientific and Industrial Research to develop high yield pulpwood species. During the year the business commenced field trials of two hybrids with superior fibre properties. It is the strategic intent of your Company to progressively achieve self-sufficiency in fibre requirements in the command areas around the mill at Bhadrachalam. Sustained commitment to this unique partnership encompassing the farming community, extension service providers, research agencies and your Company will increase access to cost effective fibre, while simultaneously bringing into productive use vast tracts of degraded land and contributing to the restoration of ecological balance. Your Company's afforestation mission goes beyond regenerating wastelands. It enhances farm incomes and generates sustainable employment, carrying the potential to benefit 1.2 million people in remote, tribal areas in the economic vicinity of the paperboard mill.

Another milestone in the relentless pursuit of attaining international competitiveness relates to the significant reduction in water consumption during the year to 97 CuM/Mt from 145 CuM/Mt in 02-03 in respect of the Specialty Papers unit at Tribeni. Apart from enhancing input cost competitiveness and product quality, this initiative contributes to conservation of water resources, underlining yet again your Company's commitment to sustainable development.

In addition to the strategic initiatives discussed herein, the business seeks to address growth challenges in a fast globalising market through a number of interventions aimed at improving competitiveness through internal efficiencies. Such interventions include: (a) implementation of Total Productive Maintenance for production loss minimization, and enhancement of quality and productivity (b) installing e-procurement systems for improving buying efficiency of key inputs and (c) leveraging synergies across businesses within ITC through integrated logistics management for lowering transportation and warehousing costs.

The growing sophistication of the Indian consumer is expected to accelerate the demand for high quality packaging, and in turn for world-class paperboards. With expectations of robust growth in the Indian economy, the per capita consumption of paper in India can increase beyond the current 5 kg per annum to progressively approximate the world average of 54 kg per annum. Your Company, on the strength of its growing competitive capability is best poised to tap this potential.

Packaging and Printing

The Packaging and Printing business of your Company continued to induct world-class technology towards consolidating its position as the country's leading provider of value added paperboard packaging. This SBU supports the competitiveness of your Company's FMCG businesses through discernibly superior packaging solutions. The strengthened packaging capability enabled the introduction of superlative quality, premium international packaging formats by your Company's Cigarettes business including round corner packs, pillow packs and bevelled edges. Innovation in the Packaging and Printing business enabled value addition to your Company's cigarette brands besides conserving foreign exchange by substituting imports. In order to service the attractive export market, an Export Oriented Unit (EOU) was set up in Tiruvottiyur for the manufacture of shoulder boxes used in the packaging of premium cigarettes, cigars and boutique products. The SBU also inducted packaging innovation in your Company's Other FMCG business segment including Branded Foods, Lifestyle Retailing and Incense Sticks businesses, enhancing product

functionality and appeal. Investments in foil stamping and spot UV capability were also made during the year in order to provide additional value to domestic and export customers. Both factories - Munger and Chennai - registered improvements in productivity and retained certification to ISO 9000 and 14000 standards. **The Munger unit also received the British Sword of Honour during the year for high standards of Safety.**

D. AGRI BUSINESS

Cigarette Leaf Tobacco

The cigarette leaf tobacco industry in India operates in an environment of seriously escalating challenges, both domestic and external. While domestic demand is constrained by the progressively declining share of cigarettes compared to other forms of tobacco consumption, export market access is increasingly being dominated by issues relating to non-tariff barriers and regionalisation of business due to formation of trade blocks such as AFTA. Stringent international standards on pesticide residues and Non-Tobacco Related Matter (NTRM) necessitate compliance with globally benchmarked product integrity and traceability protocols. The trend of increasing global usage of blend adjuncts like reconstituted tobacco and expanded tobacco is leading to increased demand for lower value by-products, thereby adversely affecting margins. Growing production and exports from two of the largest tobacco producing countries, Brazil and China, further compounded competitive pressures. While Brazil increased production by 200 million kgs. to take advantage of the shortfall in Zimbabwe's output, India could not capitalise on this opportunity in the absence of high quality flavourful tobaccos varieties. Chinese tobacco exports continued to grow on the back of their strategy of moderate taxation of cigarettes and the resultant investment in upgrading tobacco quality.

Severe competitive pressures in overseas markets, coupled with the shift in domestic tobacco consumption away from cigarettes, erode the economic potential of the tobacco sector in India, particularly at the farm end of the value chain. **A stable and equitable cigarette taxation policy will result in a shift from consumption of low-end tobaccos to high-end cigarette tobaccos in line with consumer aspirations. A strong domestic demand base will provide the Indian tobacco farmer assured market at fair prices and serve as a buffer from the volatilities of international markets. Growing demand for high quality tobaccos can thus improve farm incomes in regions with no remunerative alternate farming options, and simultaneously enhance export earnings by aligning production to market requirements.** Such a strategy can considerably enhance India's share of world tobacco trade from the current 0.7% and improve the world market standing of the second largest tobacco producing country from the current rank of 5.

In the back-drop of these adverse conditions, it is particularly heartening that your Company's tobacco exports during 2003-04 at 33 million kgs represents a growth of 40% over the previous year in volume terms and 20% in US dollar terms. The steep appreciation of the Rupee however, meant a lower growth of 11% in rupee terms. Apart from cementing relationships with existing prime customers, the business broke ground with 22 new customers registering a growth of 160% in the turnover from the new customer segment. This aggressive export growth was achieved on the back of intensified customer contact in chosen markets and value added customer-centric services, backed by the ability to provide a wide range of quality tobaccos and distinctive grades.

The criticality of crop development and research cannot be over-emphasised in the context of sustaining agri-business growth. Your Company intensified the focus on crop development resulting in several significant initiatives including development of new varieties of seeds and hybrids in the Northern light soil regions of Andhra Pradesh and in the Mysore tobacco areas. Such crop development efforts over time have contributed in significant measure towards improved farm yields. Your Company also facilitated the scaling up of drip irrigation and adoption of tray nursery technology to improve seedling productivity.

Your Company's state-of-the-art processing lines at Chirala reached optimum productivity levels in throughput and yields, besides ensuring superior product quality. These processing lines now represent the global benchmark for green leaf threshing plants.

In line with your Company's continuing commitment to world-class quality, the second processing plant at Anaparti was modernized during the year to equate with the standards at Chirala. **Both processing plants earned the Greentech Foundation award, a measure of your Company's commitment to the highest standards of Environment, Occupational Health and Safety.**

During the year, the Cigarette Leaf Tobacco business implemented an ERP system in order to enhance supply chain efficiencies, sharpen business analytics and support product traceability. This integrated IT solution leverages contemporary technology including hand-held terminals and wireless connectivity through VSATs, thereby enabling seamless information flow from even the most remote rural locations.

These initiatives would not only improve your Company's export competitiveness but also support the quality enhancement objective of your Company's cigarettes business.

Agri Commodities

As a leading agri-based company in India, ITC has been engaged in leveraging information technology to transform rural economics and, as a consequence, evolve from a commodity exporter to a major player across the agricultural value chain, both as a buyer of high quality produce and as a provider of world-class goods and services. Towards this end, your Company continues to register considerable progress in implementing the pioneering e-Choupal initiative. This internet based model carries the potential of addressing several issues confronting the competitiveness of the Indian agri value chain. As elaborated in this Report over the last two years, the e-Choupal initiative uses information technology to:

1. Deliver real-time information and customized knowledge to improve farmers' decision making ability, and thereby better align farm output to market demands while securing product traceability, better quality, productivity and improved price discovery;
2. Aggregate demand in the nature of a virtual producers' cooperative and thereby access higher quality farm inputs and knowledge at lower cost; and
3. Set up a direct marketing channel virtually linked to the mandi system for the purpose of price discovery, yet eliminating wasteful intermediation and multiple handling, thus reducing transaction costs and improving efficiency of logistics.

This model operates within the unique structure of Indian agriculture by reaching out to small farmers, who constitute the overwhelming majority. e-Choupal enables a quantum improvement in the cost and quality of extension services so necessary for improved productivity by conferring the power of expert knowledge on even the smallest of farmers. Further, this digital infrastructure can also be used for channelising services related to credit, insurance, health, education and entertainment. In this context, efforts are under way to partner with commodity exchanges to facilitate adoption of sound risk management practices by the farming community.

On the sourcing side, the benefits from e-Choupals testify to the validity of the assumptions of efficiency gains through virtual integration of the supply chain. The value of agricultural produce procured during 2003-04 from the e-Choupal network increased more than three fold compared to the previous year. Earnings from agri commodity exports for 2003-04, on the back of stellar Soy crushing operations, reflect a substantial underlying growth of 78% over 2002-03, excluding the once-off opportunity exports of non-basmati rice in the previous year. Introduction of value added products aligned to requirements of global customers, such as processed fruits, enabled inroads into new markets. Your Company has also been engaged in progressively broadening the range of agri products towards enabling a higher order of value capture for the Indian agri value chain. Towards this end, your Company commenced exports of Chillies during the year and also gained a beachhead entry in the export of high value organic produce.

As stated earlier in this Report, your Company's Agri business is engaged in leveraging its agri sourcing capability to support ITC's Branded Packaged Foods business. Commencing in 2002-03, this unique capability of your Company is being leveraged to source high quality wheat for the 'Aashirvaad' brand of atta, besides securing cost advantages through efficient procurement. Such capability enabled consumers repose growing trust in the 'Aashirvaad'

brand, creating in the process, an enviable franchise as the hallmark of consistent high quality.

Your Company continues to rapidly scale up the e-Choupal model across the geographies and commodities where deep rural linkages have been nurtured for over a decade. **As of April 2004, this strategic initiative, rural India's largest internet-based intervention of its type, reaches out to more than two million farmers in 24,000 villages through 4137 Choupals in the states of Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra, Rajasthan and Kerala**.

ITC's investment in such a valuable e-infrastructure thus creates abiding value for the farmer through empowerment, value addition and efficient linkages with domestic and overseas markets. This investment also strengthens your Company's two-way rural linkage by placing ITC in a unique position of trust with the farming community as a reliable supplier of goods and services, thereby supporting its own competitiveness. In order to effectively leverage the market created through enhanced rural incomes, your Company is engaged in executing several pilots in rural marketing including farm inputs, consumer durables, vehicles, insurance and marketing services through the e-Choupal infrastructure. These pilots successfully demonstrated value for rural consumers, brand owners and for your Company. Thus e-Choupal can serve as a basis for powerful partnerships with those who wish to obtain the benefits of such a wide and deep rural marketing and distribution capability.

Your Company also believes that resource development initiatives around e-Choupals can serve to reinforce relationships with rural communities. Towards this end, your Company commenced pilot activities relating to water harvesting and cattle quality improvement in two districts each of Madhya Pradesh and Uttar Pradesh. The success of these developmental initiatives will demonstrate the potential of the e-Choupal infrastructure as an effective delivery mechanism for upgrading social infrastructure. **Recognising the role that business can play in contributing to sustainable development, your Company's e-Choupal initiative was awarded the inaugural 'World Business Award' instituted jointly by the International Chamber of Commerce (ICC), the United Nations Development Program (UNDP) and the HRH Prince of Wales International Business Leaders Forum (IBLF) in support of the United Nations' Millenium Development Goals**.

Execution of such a bold strategy encompassing myriad constituents necessitates serious investment in capability building. Specially designed training and on-the-job inputs enable development of identified competencies across all levels of organisational activity. The average number of training days per employee was 12 during the year. The Risk Management policy of the business was strengthened, incorporating both internal learnings arising from scaled up operations and global best practices. The business is also engaged in implementing ERP, a mission critical IT initiative, to complement its robust CRM and supply chain systems, and thereby create a strong IT backbone to support physical fulfillment capability. Over time, the quality of execution would make the decisive difference in ensuring that the e-Choupal intervention realizes the vast potential as an instrument of convergence between sustainable shareholder value creation and the larger goal of contributing to societal value creation.

NOTES ON SUBSIDIARIES

The following may be read in conjunction with the Consolidated Financial Statements enclosed with the Accounts, prepared in accordance with Accounting Standard 21. Your Company has been exempted from the provisions of Section 212(1) of the Companies Act, 1956 relating to the attachment of the accounts of its subsidiaries to its Accounts. Shareholders desirous of obtaining the annual accounts of your Company's subsidiaries may obtain the same upon request. The annual report and accounts of the subsidiary companies will be kept for inspection at your Company's registered office and that of the subsidiary company. Further, the annual report and accounts of the subsidiary companies will also be available at the 'Shareholder Value' section of your Company's corporate website, www.itcportal.com in a user friendly, downloadable format.

Surya Nepal Pvt. Limited

The Nepalese GDP witnessed a welcome return to growth of around 2.3% during the year ended

32nd Ashad 2060, compared to a decline of 0.6% in the previous year. Operating conditions continued to be challenging in view of insurgency and internal disturbance which caused disruptions in supply chains.

Despite difficult trading conditions, the Company's strategies of proactively managing its supply chain, continuously adding value to brands, consistently improving productivity, together with strategic cost management initiatives resulted in substantial growth in Sales and Profit after Tax. For the 12 month period ending 13th March 2004, Sales crossed Nepalese Rs.383 crores, while Profit after Tax touched Nepalese Rs.36 crores. Surya Nepal continues to be the single largest private sector contributor to His Majesty's Government Exchequer, accounting for about 30% of total excise duty collections and nearly 4% of total tax revenues. During the year, Surya Nepal declared a dividend of Nepalese Rs.135 per share.

In a bid to provide variety to consumers and thereby add value to brands, the Company launched the International Flat 10 slim pack for its trade mark 'Surya' and modernized packaging for the 'Shikhar' brand. The superior value proposition of the Company's brands enabled consolidation of leadership in the Nepalese cigarette industry despite the entry of major international brands in the King size segment.

Certification of the cigarette factory was upgraded to ISO 9001 – 2000 in recognition of improved product and process quality. In-house production of filter rods continued satisfactorily, with the plant attaining South East Asian benchmarks in quality, efficiency and waste management.

As stated in this Report last year, Surya Nepal commenced exports of high quality garments to India. Nearly 1.5 million pieces were exported till March 2004. In view of the growing opportunity for exports, the Company also invested in a state-of-the-art manufacturing facility in Nepal, which commenced commercial production from January 2004. The investment significantly enhanced competency to deliver world-class quality and reduced response time. Encouraged by this success, the Company is actively exploring opportunities for profitable exports to other countries.

ITC Hotels Limited

The year under review witnessed recovery in the travel and tourism industry in India, with foreign tourist inflows growing by over 15%. ITC Welcomgroup, with its world-class hoteliering capability and unparalleled positioning in chosen consumer segments, namely super deluxe, 5 star, mid-market and heritage properties, consolidated its leadership. Favourable market conditions, together with competitively superior product and service offerings enabled ITC Hotels Limited to earn a gross income of Rs.168.72 crores, representing a growth of over 22%. Profit before tax for the year ended 31st March, 2004 grew substantially to Rs.27.83 crores (previous year Rs. 1.44 crores). In view of the robust performance and the positive outlook for the near and long terms, the Board of Directors recommended payment of dividend at the rate of Rs.2/- per equity share. The ITC Welcomgroup chain's foreign exchange earnings for the year 2003-2004 amounted to Rs.265.21 crores comprising Rs.127.21 crores earned by the hotel properties of ITC Limited, Rs.72.17 crores earned by the hotels owned and licensed by ITC Hotels Limited and Rs.65.83 crores by the other properties of the chain.

In a tribute to the globally benchmarked standards of operations in the ITC Welcomgroup chain, ITC Hotel Sonar Bangla Sheraton & Towers in Kolkata was declared one of the Best Hotels of the World by ABTA Travelspirit (Association of British Travel Agents).

A major source of competitive advantage for ITC Welcomgroup is the chain's Food and Beverage excellence expressed through trusted brands enjoying enviable consumer franchise: Bukhara, Peshawari, Dum Pukht, Dakshin and PanAsian. The commitment to consistently high quality standards continues to earn worldwide accolades. **The world famous Bukhara restaurant was once again voted the 'Best Indian Eatery' by the internationally renowned 'Restaurant' magazine. Dublin, the Irish pub at ITC Hotel Maurya Sheraton & Towers in Delhi, has been adjudged one of World's best 25 bars by ABTA Travelspirit.**

The Company continues to reinforce concern for the environment, water and energy conservation and safety through a host of initiatives. Eight hotels in the chain are currently accredited with ISO 14001

certification for Environment Management Systems. **ITC Hotel Maurya Sheraton & Towers, New Delhi won the Gold category Greentech Foundation Safety Award. ITC Hotel Windsor Sheraton & Towers, Bangalore won the Golden Peacock Environment award for the Year 2003-04. WelcomHotel Mughal Sheraton and WelcomHotel Rajputana Palace Sheraton won Greentech Foundation Environment Awards. ITC Hotel Grand Maratha Sheraton & Towers, Mumbai won the 5 Star rating of the British Safety Council**. The slew of awards and accreditation testify to the contribution towards sustainable development.

The service edge of ITC Welcomgroup, spanning cuisine, accommodation, safety and security is manifest across 55 properties in 43 locations. Apart from partnering in the growth of the holding company, ITC Hotels also seeks to capture the attractive growth opportunities in the burgeoning budget travel. Towards this end, the Company's subsidiary Fortune Park Hotels entered into management contracts with three hotels in Gurgaon, Chennai and Vijayawada. These mid-market hotels are expected to commence operations by end of 2004, thereby enhancing presence in this segment to 1515 rooms across 18 locations.

Russell Credit Limited

During the year, the Company earned a profit after tax of Rs.16 crores representing a growth of 27%.

The Company successfully bid for and acquired the shareholding of the Government of Andhra Pradesh (4.7%) in VST Industries Limited (VST). The Company held 22,02,529 equity shares of VST (14.3%) as at close of business on 31st March, 2004.

As stated in earlier Reports, a suit was filed by an individual in the High Court at Calcutta, seeking an injunction against the Company's Counter Offer to the shareholders of VST Industries Limited, made in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, as a competitive bid, pursuant to a Public Offer made by an Acquirer, which closed on 13th June, 2001. The High Court at Calcutta, while refusing to grant such an injunction, instructed that the acquisition of shares pursuant to the Counter Offer by the Company and the other Acquirer, would be subject to the final Order of the High Court, which is still awaited. Similar suits filed by an individual and two shareholders, in the High Courts of Delhi at New Delhi and Andhra Pradesh at Hyderabad, had earlier been dismissed by the respective High Courts.

BFIL Finance Limited

The Company continues to focus on recoveries through negotiated settlements including property settlements and pursuing legal cases against various defaulters. Some of the property settlements received were offered to banks in settlement of dues. During the year settlement was reached with three banks and one financial institution.

Gold Flake Corporation Ltd, Wills Corporation Ltd., Greenacre Holdings Ltd. & MRR Trading and Investment Company Ltd.

There were no major events to report with respect to these companies.

Landbase India Limited

As stated in the Report of the Directors last year, development of golf based resorts present attractive long term prospects in view of their growing popularity the world over. The business of Landbase India Limited (LBI) complements the resort development capabilities residing in your Company's hotels business. In order to realise operating synergies and redeem value from your Company's exposure, an understanding was concluded during the year to acquire the balance 30% shareholding in LBI from the other shareholders. This acquisition was completed on 26th May 2004, whereupon LBI became a wholly owned subsidiary of your Company.

ITC Infotech India Limited

Large global corporations continued to pursue outsourcing as a route to strategic cost management, fueling the movement of IT services and other business processes to competitive offshore bases like India. However, apprehensions of job losses in these countries resulted in political opposition, triggering in some cases legislative interventions to

contain outsourcing. While these developments have slowed the momentum towards outsourcing in the short term, the long-term trend in this direction is likely to remain unaffected, particularly with global firms replicating the offshore services model of Indian software companies. Consequently the source of competitive advantage for Indian software firms will have to extend beyond mere arbitrage in manpower costs to value added services, backed by world-class infrastructure, adequate talent pool of human resources with relevant skill sets and superior delivery processes.

In order to acquire and retain customers, ITC Infotech India (I3L) focused on building differentiating skill sets to access customers, offering an integrated suite of services and providing key competitive advantages and risk assurance to their overseas clients. Accordingly, the Company inducted several senior professionals with considerable industry experience. Broadening of the skill base enabled development of a strong Customer Relationship Management (CRM) practice. Emphasis on reuse of technology and business knowledge components was reinforced to obtain productivity gains. Assurance of globally benchmarked levels of process and service quality through adherence to CMM Level 5 process and ISO 9001 standards enhanced the market standing of the Company as a world-class IT services provider. Dedicated delivery and account management teams were set up to address key accounts and improve customer satisfaction and retention. The Company's state-of-the-art infrastructure at ITC Infotech Park in Bangalore provides distinctive competitive strength. The development centers for the CRM and Product Lifecycle Management Practices were registered as Software Technology Parks during the year.

Effective execution of strategy enabled I3L cement its strategic relationship with the market leader in product lifecycle management (PLM) software, winning one of the largest outsourcing orders from the US during the year. Likewise, the global leader in software solutions for the hospitality industry was added to the client list.

During the year ended 31st March 2004, Revenues grew by nearly 62% to Rs.79.19 crores (previous year Rs.48.97 crores). The Company reported a positive EBITDA of Rs.0.48 crores against a loss of Rs.4.95 crores in the previous year, reflecting a turnaround in operations and growth in customer acquisitions. Margins remained under pressure due to higher cost of customer acquisition and investment in superior delivery processes and project management skills. While prices stabilized in the latter half of the year, the depreciation of the US dollar adversely impacted profitability.

The Company issued and allotted 1,50,00,000 Equity Shares of Rs. 10/- each, for cash at par, on a Rights basis, to the existing shareholders of the Company. As a result, the paid up Capital of the Company increased from Rs.10,20,00,000/- to Rs.25,20,00,000/- with effect from 2nd June, 2003.

During the year under review, ITC Infotech Ltd, UK, a wholly owned subsidiary of I3L, registered a turnover of GBP 7.75 million (previous year – GBP 5.23 million) and a net profit of GBP 0.33 million (previous year – GBP 0.42 million). The company declared a dividend of 40p per share for the financial year ended 31st March 2004.

As stated in this Report last year, I3L had received the approval of the Reserve Bank of India to invest a further US$ 2.5 million in the equity capital of ITC Infotech (USA), Inc. (I2A), a wholly owned subsidiary. Accordingly, I3L invested US$ 1.8 million in the equity share capital of I2A in the previous year. During the year under review, I3L invested a further amount of US$ 0.35 million in the equity share capital of I2A by subscribing to 3,500 Common Shares without par value for cash at US$ 100 each. During the year under review, ITC Infotech (USA), Inc. registered a turnover of US$ 3.87 million (previous year – US$ 2.75 million) and a net loss of US$ 0.36 million (previous year – US$ 0.36 million).

As also stated in this Report last year, I3L had concluded a Shareholders' Agreement with ClientLogic Operating Corporation, USA (CL) in order to leverage the growing opportunity in IT enabled services. Consequently I3L invested Rs 14.97 crores by subscribing to 1,49,75,000 equity shares of Rs 10/- each for cash at par in CLI3L e-Services Limited during the year. CLI3L e-Services Limited (CLI3L) was incorporated on 29th January 2003 and commenced commercial operations on 1st June 2003. The joint venture rapidly consolidated operations and is well poised to exploit the business

potential in this sector. CLI3L registered a Gross Income of Rs 35.46 crores and a net profit of Rs 1.08 crores during the period commencing on 29th January 2003 and ending on 31st March 2004.

Software testing is emerging as another area of large opportunity. Equally content management is another promising area where demand is being fueled by the requirements of the Sarbannes Oxley Act in the U.S.A. and other similar governance frameworks in other countries. I3L is gearing up people and processes to leverage these opportunities. The Company continues to invest in comprehensive human resource management systems and processes with particular focus on training and development. Competency mapping and capability building for knowledge leadership remain the focus areas. An emerging position of leadership in Product Lifecycle Management software, increasing competence in the CRM space, the development of an ERP practice, globally benchmarked quality processes, growing depth of project experience together with superior infrastructure provide the robust platform to address future growth challenges.

ITC Global Holdings Pte. Ltd.

Since 8th November 1996, the Judicial Managers have been conducting the affairs of ITC Global under the authority of the High Court of Singapore.

The Judicial Managers had indicated to your Company that the outstanding dues of ITC Global to its creditors were likely to be around US$ 50 million (apart from the debt of approximately US$ 10 million owed by ITC Global to ITC and for which your Company has already filed its formal Proof of Debt to the Judicial Managers) and had sought your Company's financial support to ITC Global to enable it to settle with its creditors. Your Board does not accept any liability in this regard and has accordingly advised the Judicial Managers.

However, without prejudice, and with the intention of preserving the goodwill of the international banking and other investing communities and thereby subserve your Company's future business interests in a fast-globalising economy, your Company proposed a goodwill assistance of US$ 26 million to ITC Global. It was made clear that this would be subject to your consent and all necessary approvals from all Government and other authorities, both at Singapore, and in India, and also subject to concluding a comprehensive agreement between your Company and the Judicial Managers in this regard. However, before your Board could consider the draft agreement as forwarded by the Judicial Managers, your Company's Singapore lawyers received a letter from the lawyers of the Judicial Managers containing certain baseless and unwarranted allegations against your Company. Subsequently, your Board, while approving the draft Agreement stipulated a condition that the execution of the agreement will be subject to the receipt of an unconditional apology and withdrawal of the allegations and offensive comments made against your Company by the Judicial Managers in their letter. Although, initially it appeared that the Judicial Managers would be complying with the stipulations of your Board, they have, instead filed a baseless and vexatious Writ against your Company before the Singapore High Court claiming approximately US$ 18.10 million from your Company. After obtaining suitable legal advice, your Company has filed an appropriate application for the dismissal of the Writ, which is pending. Given this situation, there is no likelihood of progressing further with your Company's previously proposed goodwill assistance to ITC Global.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona maintained its market leadership in the Indian cigarette filter industry with nearly 58% value share. Gross Sales for the year ended 31st December 2003 at Rs.68.97 crores represented a growth of 2.4% over the previous year. Profit after Tax grew by 10.56% to Rs.5.13 crores. The Board of Directors of the Company recommended a dividend of 50% for the year against 25% in the previous year.

The speciality filters production capability acquired during the previous year enabled the Company to make an entry into export markets for this segment. During the year, exports touched 48 million filter rods including 14 million speciality flavour filter rods. ITC Filtrona became the first cigarette filter

company in the world to receive the SA 8000 certification.

The Company continues its focus on remaining competitive and supporting quality improvement in the Indian Cigarette industry through product development and superior filter solutions.

King Maker Marketing Inc.

King Maker Marketing Inc. (KMM), a company registered in the State of New York, USA, has been enabling your Company's foray into the US tobacco and FMCG market. KMM also provides market research services for several clients.

Difficult trading conditions in the US market were exacerbated by multinational cigarette companies enhancing their wholesale and retail margins and discounts. This situation was further compounded by some manufacturers continuing to avoid payments into the escrow fund of the Master Settlement Act and consequently resorting to unfair pricing. Despite such market adversity, Sales of KMM for the 12 month period ending 31st January, 2004 was US$ 28 million, a growth of 9.6% over the same period last year. King Maker Marketing Inc. paid your Company a preferential dividend of US$ 650,000.

REAL ESTATE

As stated in this Report last year, your Company expects to redeem its investments over time as and when economic revival makes it attractive to develop the substantial real estate assets. During the year under review there were no significant events to report in this area.

AUDIT AND SYSTEMS

Your Company believes that internal control is a necessary concomitant of the principle of governance that freedom of management should be exercised within a framework of appropriate checks and balances. Your Company remains committed to ensuring an effective internal control environment that provides assurance on the efficiency of operations and security of assets.

Your Company's well established internal audit process continuously monitors the adequacy and effectiveness of the internal control environment across the various businesses and the status of compliance with operating systems, internal policies and regulatory requirements. It also assists in the formulation of major risk management policies. Efforts continue to be directed at securing adequacy and effectiveness of laid down systems and policies, particularly in the new business initiatives. In the networked IT environment of your Company, validation of IT security continues to receive focused attention of the internal audit team which includes IT specialists. The Internal Audit function also reviews the quality of planning and execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate.

The Audit Committee of your Board met ten times during the year. It reviewed the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendations. It also engaged in overseeing financial disclosures and in reviewing your Company's risk management policies.

HUMAN RESOURCE DEVELOPMENT

It is your Company's belief that the competence and commitment of its people are key drivers of competitive advantage enabling your Company deliver unique customer value and compete successfully in the market place. Your Company endeavours to strengthen organisational culture in order to attract and retain the best talent and bring out the best in people. Employees are rewarded with opportunities for learning and value addition, competitive remuneration and rapid career advancement.

Your Company's human resource management systems and processes aim to create a responsive, market-focussed, customer-centric culture and enhance organisational vitality, so that each business is internationally competitive and equipped to seize emerging market opportunities.

Creating and fostering a culture of distributed leadership has been a cornerstone of your Company's human resource strategy. It is your Company's belief that the competitive capability of an enterprise depends largely on the organisation's ability to learn

continuously and manage knowledge effectively. An enabling environment that fosters continuous learning and innovation, therefore, remains a key focus area.

Your Company believes that the aspiration to create enduring value for society and the nation provides the motive force to employees to enhance value creation for the shareholder on a sustainable basis. Your Company acknowledges the contribution of its 13,700 world-class employees and the spirit of commitment, collaboration and partnership demonstrated by them in realising the Company's vision.

ENVIRONMENT, OCCUPATIONAL HEALTH & SAFETY

Your Company believes that enterprises are not only accountable for financial results but carry a much wider responsibility towards the economy, environment and society. In line with this philosophy your company continues to invest substantial resources towards sustaining and continuously improving standards of environment, occupational health and safety in a bid to attain and exceed international benchmarks. Various international and national awards and accreditations cited earlier in this Report and in the Reports of prior years stand testimony to ITC's commitment.

Your Company's initiatives in Environment performance are a source of pride, contributing in substantial measure to key national priorities. **ITC achieved the status of a Water Positive Corporation for the second successive year**. Significant efforts by all units of your Company in conserving water, encompassing recycling, use of water miserly technologies, rainwater harvesting and watershed development, ensured that the total rainwater harvesting capacity created upto 2003–04 is almost double the water consumed. Your Company remains committed to minimising the impact of its operations on global warming. As stated earlier in this report, your Company supports large-scale tree plantations on private wastelands. ITC's farm and social forestry initiatives enabled sequestration of a sizable portion of carbon dioxide releases. It is your Company's endeavour to progressively position ITC as a Carbon Positive enterprise.

Each of your Company's units operate to world-class standards of Occupational Health and Safety. Most of your Company's units whether a cigarette factory, leaf threshing plant, printing unit, research centers or hotels, maintained an enviable zero Lost Time Accident record during the year. Aggregate Lost Time Accidents of all units of your Company continued the trend towards zero, touching 27 in 2003-04, a reduction of 23%.

Such a focus on EHS was made possible due to collective endeavour of your Company's employees at all levels. Adoption of sound EHS strategies, benchmarking to global standards, and regular audits was backed by intensive training in order to continuously improve EHS performance. This year again your Company invested over 10,000 person-days in EHS training. Glimpses of your Company's range of EHS initiatives are set out in the pictorial section of this Report, highlighting the contribution towards sustainable development.

EXCISE

In the Report & Accounts of the last seventeen years, your Directors have mentioned that a Show Cause Notice dated 27th March, 1987 was issued to your Company for alleged evasion of Excise Duty during the period from 1st March, 1983 to 28th February, 1987. Your Company and its contract manufacturers were asked to show cause as to why they should not be required to pay duty at the higher slab corresponding to the actual price of cigarettes alleged to have been charged by the retailers, amounting to an unprecedented sum of Rs. 803.78 crores besides other penalties in law.

The Commissioner of Central Excise, Delhi, by an Order dated 29th December, 1995 confirmed a differential excise duty demand of Rs. 681.54 crores against your Company and also levied a penalty of Rs. 66.50 crores on it. Personal penalties aggregating to Rs.3.15 crores were also imposed on six ex-Directors of your Company. The Commissioner also confirmed a demand of Rs. 118 crores on seven contract manufacturers of your Company and levied penalties on them aggregating to Rs. 7 crores.

Your Company preferred an Appeal to the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT) against the Commissioner's Order dated

29th December, 1995. Similarly, all six ex-Directors of your Company, as well as the contract manufacturers, preferred Appeals. It may be mentioned that, during the pendency of the appeals in the CEGAT, your Company made a pre-deposit of an aggregate amount of Rs. 350 crores between 30th April, 1996 and 1st January, 1997, in terms of a stay order dated 15th March, 1996 passed by the CEGAT.

The CEGAT, by an Order dated 4th September, 1998: -

a) set aside the demand of differential excise duty on the contract manufacturers of ITC ;

b) set aside the penalties imposed on ITC, six of its ex-Directors and its contract manufacturers ;

c) set aside the quantification of the excise duty demand on ITC ; and

d) remanded the matter to the Adjudicating Authority for fresh quantification of duty demand on ITC in accordance with the guidelines provided in the Order and after giving ITC an opportunity of personal hearing.

Since your Company believes that it has no legal liability to pay any differential excise duty, and the Order of the CEGAT is, therefore, unsustainable in law, the Company has filed an Appeal in the Supreme Court. The Excise Department has also filed Appeals challenging the CEGAT's Order. At the admission stage, the Supreme Court, on 15th January, 1999 passed an Order to the following effect: -

a) The Appeal filed by the Company against the CEGAT's Order holding the Company liable for differential duty has been admitted.

b) The Appeal filed by the Excise Department in respect of the Company has been admitted; adjudication proceedings for fresh quantification of differential duty in accordance with the CEGAT's Order may continue, but no orders pursuant to such proceedings shall be passed without the leave of the Supreme Court.

c) Excise Department's appeals in respect of the contract manufacturers have been admitted only on the limited question of their liability, if any, upto six months preceding the Show Cause Notice.

d) Excise Department's appeals challenging the quashing of penalties imposed on the former Directors have been dismissed.

The hearing on the appeals filed by your Company and the Excise Department concluded in December 2003, and judgement is awaited.

A few days before the CEGAT passed its Order on 4th September, 1998 the Excise Department filed criminal complaints on 30th August, 1998 in the Economic Offences Courts at Meerut, Bangalore, Mumbai, Patna and Kolkata against the Company and the six ex-Directors on the basis of Order of the CCE, Delhi dated 29th December, 1995. These prosecutions are being contested by your Company and the individuals.

On applications moved by the ex-Directors, the proceedings before the Bangalore, Kolkata and Meerut Courts have been stayed by the High Court of Karnataka, the Calcutta High Court and the Allahabad High Court respectively.

With regard to the period prior to March, 1983, various Show Cause Notices were issued in respect of the Bangalore, Saharanpur and Munger factories of the Company between 1975 and 1985. These Show Cause Notices were assigned to the Director General of Inspection, Customs & Central Excise, New Delhi ('DG') who passed his Order on 10th April, 1986. Although the differential duty payable under the DG's Order was determined and paid by your Company on an admitted interpretation of Rule 5 of Central Excise (Valuation) Rules (which interpretation has since been upheld by the CEGAT and affirmed by the Supreme Court), the Excise Department raised doubts on such interpretation and issued revised demands under the DG's Order, in respect of Bangalore, Munger and Saharanpur factories. The Bangalore demand for Rs.27.58 crores was set aside by the Commissioner (Appeals), Bangalore, by his Order dated 22nd November, 1999 against which the Department filed an Appeal and the same was dismissed by the CEGAT, Chennai vide its order dated 18th December 2003. The Saharanpur demand of Rs.80.30 crores was confirmed by the Commissioner (Appeals) to the extent of Rs.76.03 crores, against which your Company filed an Appeal before the CEGAT, Delhi. By an Order dated 28th November, 2001, a three-member Bench of the CEGAT to whom the Appeal was referred, answered all questions arising in the

Appeal in favour of your Company. Thereafter, the CEGAT by its Order dated 2nd August, 2002 allowed the appeal of your Company by setting aside the demand for Rs.76.03 crores and remanding the matter to the Asst. Commissioner for re-quantification in accordance with the Order of its three-member Bench. The Department has filed an Appeal before the Supreme Court which has been admitted for hearing. As regards the Munger factory the revised demand of Rs.8.29 crores under the DG's Order was dropped by the Commissioner of Central Excise, Patna vide his Order dated 20th September, 2001.

As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again reopened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs.43.88 crores (for Munger factory), Rs.143.22 crores (for Bangalore factory), Rs.31.05 crores (for Kidderpore factory), Rs.41.51 crores (for Parel factory) and Rs.26.43 crores (for Saharanpur factory). All these Notices were assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. Your Company, apart from denying any liability as claimed in the Notices, challenged the maintainability of all these Show Cause Notices.

As mentioned in the 1997 Report of the Directors, the Commissioner of Central Excise, Delhi, passed orders directing the Departmental Authorities to finalise the assessments in respect of Bangalore, Parel and Munger factories for the pre-March 1983 period. On an Appeal filed by your Company against an Order of the Commissioner, rejecting the Company's contentions on the issue of maintainability, the CEGAT, Chennai, by its judgement dated 13th January, 2000 upheld the contention of your Company and set aside the Bangalore Show Cause Notice for Rs.143.22 crores with the direction, inter alia, that the allegations made therein should be considered while finalising the assessments in respect of the Bangalore factory, which has been your Company's contention all along. Though the Department filed an Appeal in Supreme Court against the Order of the CEGAT, Chennai and the same was pending, pursuant to the order of the CEGAT Chennai, the Assistant Commissioner, Central Excise, Bangalore, by his Order dated 26th July, 2001 demanded a differential duty of about Rs.583 crores for the cigarettes cleared from the Bangalore factory during the period 1st October, 1975 to 28th February, 1983 and this demand also took into account the effect of the DG's order which culminated in the Order dated 22nd November, 1999 passed by the CCE (Appeal), Bangalore. On an appeal filed by your Company, the Commissioner (Appeals), by an Order dated 30th August, 2002, set aside the said Order and Demand dated 26th July 2001. On requantification in accordance with the said Appellate order, the Department has determined that your Company has made excess duty payment of Rs. 3.76 crores. The Department's Appeal against the Order dated 13th January, 2000 passed by the CEGAT, Chennai was dismissed by the Supreme Court by its Order dated 6th March 2003 as infructuous.

Your Company's Appeals against similar Orders passed by the Commissioner of Central Excise, New Delhi during September, 1996 relating to the Show Cause Notices issued in respect of Munger and Parel factories are pending before the CEGAT, Kolkata and Delhi respectively. As regards the Show Cause Notice in respect of Saharanpur factory, your Company has filed a writ petition in the Delhi High Court which is pending.

Despite your Company having, as early as in the year 1986, paid the differential duty on account of notional interest on Security Deposit for excise valuation on cigarette clearances during the period 1st July 1980 to 30th June, 1983 from Parel factory consequent to DG's order, the Excise Authorities were persisting with two more Notices, issued in 1983 and 1984 for a total sum of Rs.57.66 crores. These two Notices were also assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. The Commissioner, Delhi, by his order dated 13th September, 1996 rejected your Company's contentions on maintainability of the Notices. By an Order dated 30th September, 1999, the Comissioner of Central Excise, Delhi has confirmed the demand in respect of these two Notices for only Rs.75.27 lakhs (as against Rs.57.66 crores originally proposed) which amount has been directed to be adjusted with the equivalent amount already paid by your Company pursuant to the DG's Order. By the said Order, a penalty of Rs.5 lakhs has also been imposed on your

Company. The Company has filed an Appeal before the CEGAT, Mumbai (subsequently transferred to the CEGAT, Delhi) against the said Order dated 30th September, 1999.

Similarly, though the Company's appeal in respect of the Show Cause Notice relating to Parel factory for Rs.41.51 crores is pending before the CEGAT, the Commissioner of Central Excise, Delhi by his order dated 29th December, 2000 raised a demand for Rs.5.96 crores or such higher or lower amount as may be redetermined by the jurisdictional officer. By the same order the liabilities of the two contract manufacturers were roughly determined at Rs.83 lakhs and Rs.41 lakhs as against the differential duty of Rs.6.65 crores and Rs.2.89 crores respectively proposed in the said Show Cause Notice. Your Company and the contract manufacturers have filed separate Appeals in the CEGAT, against the said Order of the Commissioner. The CEGAT has granted a complete stay against the said demands. The Department has also filed an Appeal against the said Order dated 29th December, 2000 passed by the Commissioner, Delhi before the CEGAT, Delhi.

Prior to the order dated 29th December, 2000 passed by the Commissioner, Delhi, the Deputy Commissioner of Central Excise, Mumbai I, in compliance with the earlier orders of the Commissioner, Delhi, finalised the assessments relating to Parel factory by his Order dated 22nd September, 2000. In terms of the said order, a sum of Rs.87.83 lakhs as excise duty is shown to have been paid in excess by your Company. The Department's Appeal against the said order has been partially allowed as against which your Company has filed an Appeal. All the Appeals against various proceedings connected with the finalisation of assessments for the period prior to March 83 in respect of Parel factory and the two contract manufacturers, were heard by the CEGAT, Delhi in Feb. 2004 and orders are awaited.

With respect to cigarettes and smoking mixtures cleared from the Munger factory, proceedings for finalisation pursuant to remand have resulted in the Deputy Commissioner's Orders dated 29th August 2002 and 8th October, 2002 demanding Rs.13.09 crores and Rs. 1.73 crores respectively. On appeals filed by your Company, the Commissioner (Appeals), Patna has stayed the recovery of the demands on pre-deposit of Rs.2 crores and Rs. 0.55 crores respectively.

So far as the Kidderpore factory is concerned the Notices were set aside and all pre-March 1983 valuation disputes stand resolved pursuant to the finalisation of the provisional assessments.

In accordance with the law laid down by the CEGAT and upheld by the Supreme Court, the exorbitant duty demands under the aforesaid Show Cause Notices and orders on interpretation of Rule 5 of the Central Excise Valuation Rules, 1975 would stand virtually extinguished.

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, subsequently, on applications filed by the individuals concerned, discharged them. Similar applications were filed by the individuals in the Special Court in Patna, which are pending. On applications moved by the individuals concerned, the Karnataka High Court, by its Order dated 31st August 2001 quashed the complaint in so far as the said individuals are concerned. Following the Order passed by the Karnataka High Court, the Magistrate has quashed the Complaint by his Order dated 28th September, 2001. The Supreme Court has since dismissed an appeal filed by the Department against the order of the Karnataka High Court dated 31st August 2001.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable.

Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 19(vii) in the Schedules to the Accounts and Note 19 (v) in the Schedules to the Consolidated Financial Statements.

RECOVERY OF DUES FROM THE CHITALIAS AND ENQUIRY BY THE ENFORCEMENT DIRECTORATE

You are aware that your Company had secured from the District Court of New Jersey, U.S.A, a decree for US$12.19 million together with interest and costs against Suresh and Devang Chitalia of U.S.A and their companies, and that the Chitalias had filed Bankruptcy Petitions before the Bankruptcy Court, Orlando, Florida, which are yet to be determined.

As explained in the previous Reports of the Directors, though your Company has written off the export dues in foreign exchange from the Chitalias with the approval of the Reserve Bank of India, your Company continues with its recovery efforts in the Indian suit against the Chitalia associates. The suit is in progress.

In respect of some of the show cause memoranda issued by the Directorate, after hearing arguments on behalf of your Company, the appropriate authority has passed orders in favour of your Company, and dropped those memoranda. Meanwhile, your Company has received summons relating to five cases of prosecution launched by the Enforcement Directorate. These are pending before the Metropolitan Magistrate Court, Calcutta.

In the proceedings initiated by the Enforcement Directorate, pursuant to your Company's request for return of non-relied documents in possession of the Enforcement Directorate, the Directorate is presently in the process of returning non-seized non-relied documents.

TAXATION

As mentioned in the Report of the Directors in earlier years, the Company had obtained stay orders from the Hon'ble Calcutta High Court in respect of the notices served by the Income Tax Department for re-opening the past assessments for the period 1st July, 1983 to 30th June, 1986. This status remains unchanged.

As also stated in the Report of the Directors in earlier years, in respect of similar notices from the Income Tax Department for re-opening the past assessments for the period 1st April 1990 to 31st March 1993, the Hon'ble Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

As at 31st March 2004 your Company had unclaimed Fixed Deposits of Rs. 40 lakhs. No fresh / renewal of deposits were accepted during the financial year. There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 348 persons, who did not claim repayment of their deposits, which had become due, amounting to Rs.40 lakhs.

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company continues to provide effective and quality service to the investors through an experienced team of professionals. Already a benchmark in-house Registrar, ISC consistently endeavours to keep investor servicing contemporary and efficient.

The 'Investor Relations' section on your Company's corporate website, which provides comprehensive information on share related activities carried out by ISC, continues to serve as a user-friendly online reference guide for investors.

DELISTING OF ORDINARY SHARES FROM SOME STOCK EXCHANGES

Pursuant to the approval of the Members at the 92nd Annual General Meeting held on 25th July, 2003, the Ordinary Shares of your Company were delisted from Stock Exchanges at Ahmedabad, Bangalore, Cochin, Delhi, Hyderabad, Kanpur and

Pune. The Company's application for delisting is pending with the Stock Exchange at Chennai.

The Company's Shares will however continue to remain listed on National Stock Exchange, Stock Exchange – Mumbai and the regional Calcutta Stock Exchange.

DIRECTORS

Shri Thirukkurugavoor Muthiah Nagarajan ceased to be a Non-Executive Director of your Company with effect from 12th June, 2003, consequent upon withdrawal of his nomination by the Industrial Development Bank of India.

Your Directors would like to record their appreciation of the services rendered by Shri Nagarajan.

The Board of Directors, at its meeting held on 30th January, 2004, extended the term of office of Shri Sahibzada Syed Habib-ur-Rehman as a Wholetime Director of the Company by a further period of two years from 21st March, 2004 to 20th March, 2006. Appropriate resolution seeking your approval to such extension of term of Shri Rehman is appearing in the Notice convening the 93rd Annual General Meeting of your Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Sarvashri Yogesh Chander Deveshwar, Ajeet Prasad, John Benedict Stevens and Sahibzada Syed Habib-ur-Rehman will retire by rotation at the ensuing Annual General Meeting of your Company and, being eligible, offer themselves for re-election. Your Board of Directors has recommended their re-election.

AUDITORS

The Auditors, Messrs. A. F. Ferguson & Co., retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

EMPLOYEE STOCK OPTION SCHEME

It may be recalled that the Members, at the Extraordinary General Meeting held on 17th January, 2001, approved formulation of the 'Employee Stock Option Scheme' ('Scheme') for the eligible employees of your Company and its Directors, and also for the eligible employees including Managing / Wholetime Directors of subsidiary companies of your Company.

Pursuant to the Scheme, 9,99,115 Options were granted during the year to the eligible employees of your Company and those of the Company's subsidiary companies. During the year, 1,66,965 Options were exercised and equivalent number of Ordinary Shares were issued and allotted under the Scheme. Consequently, the issued and subscribed Share Capital of the Company stands increased to Rs. 247,67,88,510/- divided into 24,76,78,851 Ordinary Shares of Rs. 10/- each as on 31st March, 2004.

The Company's Auditors, Messrs. A. F. Ferguson & Co., have certified that the Scheme has been implemented in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolution passed by the Members at the aforesaid General Meeting.

Details of the Options granted up to 31st March, 2004 are set out in the Annexure to this Report, as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, your Directors confirm having :

a) followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanation relating to material departures, if any;

b) selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as

to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;

c) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

d) prepared the Annual Accounts on a going concern basis.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21- Consolidated Financial Statements, ITC Group Accounts form part of this Report & Accounts. These Group Accounts also incorporate the Accounting Standard 23- Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27-Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India. These Group accounts have been prepared on the basis of audited financial statements received from Subsidiary, Associate and Joint Venture Companies, as approved by their respective Boards.

OTHER INFORMATION

The certificate of the Auditors, Messrs. A. F. Ferguson & Co. confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed. Particulars as required under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report together with particulars of Employees as required under Section 217(2A) of the Companies Act, 1956.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words "anticipate", "believe", "estimate", "expect", "intend", "will" and other similar expressions as they relate to your Company and/or its businesses are intended to identify such forward-looking statements. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

CONCLUSION

Your Company's strategy of creating multiple drivers of growth is designed to sustain superior value creation over the short, medium and long terms. Each business within the portfolio is continuously engaged in upgrading competitive capability to effectively address growth challenges in the fast globalising Indian market, and over time in world markets. Effective management of diversity enhances your Company's adaptive capability and provides an intrinsic ability to effectively manage business risk. The vision of enlarging your Company's contribution to the Indian economy is manifest in the creation of unique business models that foster international competitiveness of not only its businesses but also the entire value chain of which it is a part. It is the endeavour of your Board and of employees at all levels to position ITC as one of India's most valuable companies, creating growing value for society and for shareholders.

Your Directors look forward to the future with confidence.

28th May, 2004
Virginia House
37 J L Nehru Road
Kolkata 700 071
India

On behalf of the Board

Y. C. DEVESHWAR *Chairman*
K. VAIDYANATH *Director*

ITC Limited

ANNEXURE TO THE REPORT OF THE DIRECTORS

Statement as at 31st March, 2004, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

a) Options granted : 19,65,304 Options granted till 31st March, 2004, as follows:

- 3,39,119 Options granted in 2001, for the financial year 2000-01, at an Exercise Price of Rs.779.95 per Option.
- 6,27,070 Options granted in 2002, for the financial year 2001-02, at an Exercise Price of Rs.617.90 per Option.
- 9,99,115 Options granted in 2003, for the financial year 2002-03, at an Exercise Price of Rs.679.90 per Option.

b) Pricing formula : Options have been granted at the closing market price of the Ordinary Shares of the Company on the National Stock Exchange of India Limited, on the date of grant of Options.

c) Options vested : 3,62,716

d) Options exercised : 1,66,965

e) Total number of Ordinary Shares arising as a result of exercise of Options : 1,66,965

f) Options lapsed : 1,22,668

g) Variation of terms of Options : Nil

h) Money realised by exercise of Options : Rs. 11.20 crores

i) Total number of Options in force : 16,75,671

j) i. Details of Options granted to senior managerial personnel : As provided below

	Name	Designation	No. of Options granted during the financial year
1.	Y. C. Deveshwar	Chairman & Wholetime Director	42,359
2.	S. S. H. Rehman	Wholetime Director	18,532
3.	A. Singh	Wholetime Director	18,532
4.	K. Vaidyanath	Wholetime Director	14,560
5.	Y. P. Gupta	Non-Executive Director	8,824
6.	Ajeet Prasad	Non-Executive Director	8,824
7.	P. B. Ramanujam	Non-Executive Director	8,824
8.	B. Sen	Non-Executive Director	8,824
9.	Ram S. Tarneja	Non-Executive Director	8,824
10.	B. Vijayaraghavan	Non-Executive Director	8,824
11.	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	7,942
12.	A. Nayak	Executive Vice President, Corporate Human Resources	7,942
13.	R. Srinivasan	Divisional Chief Executive, PPD	7,942
14.	B. B. Chatterjee	Executive Vice President & Company Secretary	6,353
15.	S. M. Ahmad	Executive Vice President - Marketing, ITD	5,484
16.	L. N. Balaji	General Manager, Corporate Strategic Planning	3,575
17.	P. Banerjea	Executive Vice President - Finance & MIS, ITD	4,881
18.	S. Basu	Executive Vice President, Internal Audit	4,827
19.	K. C. Biddappa	Vice President – Marketing & R&D, ILTD	3,347
20.	A. Chand	General Manager - Marketing & Retail Operations, LRBD	4,124
21.	P. Chatterjee	Executive Vice President & Corporate Financial Controller	5,586
22.	C. Dar	Divisional Chief Executive, LRBD	5,559
23.	H. M. Dar	General Manager - Trade Marketing & Distribution, ITD	3,799
24.	C. S. Das	SBU Chief Executive, GGSB	3,959
25.	A. De	Vice President – Bhadrachalam Operations, PSPD	2,959
26.	P. Dhobale	Divisional Chief Executive, PSPD	5,559

	Name	Designation	No. of Options granted during the financial year
27.	S. Dutta	General Manager, Corporate Accounts	2,864
28.	M. Ganesan	Vice President - Finance, ILTD	3,252
29.	D. Ganesh	Chief Engineer, ITD	4,382
30.	K. N. Grant	Divisional Chief Executive, ITD	7,942
31.	P. Gupta	General Manager, Corporate Taxation	4,423
32.	R. G. Jacob	Head of Corporate Quality & Product Development	7,942
33.	S. Keshava	General Manager - New Business Development, ITD	4,147
34.	N. Lakshminarayanan	Divisional Risk Officer, IBD	3,817
35.	U. Lall	Executive Vice President - Tobacco & Regulatory Affairs, ITD	5,122
36.	B. N. Malhotra	Executive Vice President, Projects	5,294
37.	H. Malik	General Manager - Marketing, FD	3,615
38.	K. T. R. Nambiar	Vice President – Finance, PSPD	2,527
39.	R. S. Naware	Divisional Chief Executive, FD	5,824
40.	R. Parasuram	Vice President – Finance, ITD	4,328
41.	A. Pathak	General Manager - Finance, FD	4,491
42.	K. T. Prasad	General Manager - Human Resources, IBD	3,158
43.	N.V.S.S.V. Prasad	Vice President – Processing & Technology, ILTD	3,747
44.	K. V. Raghavaiah	General Manager, Corporate Human Resources	4,599
45.	A. K. Rajput	Vice President, Corporate Affairs	3,677
46.	G. M. K. Raju	SBU Chief Executive, PPB	3,432
47.	T. V. Ramaswamy	Executive Vice President - Technical & HR, ITD	5,665
48.	S. Rangrass	General Manager - Human Resources, ITD	4,652
49.	A. K. Rao	General Manager - ITC Group Research & Development Centre, ITD	4,083
50.	S. Janardhana Reddy	Divisional Chief Executive, ILTD	5,213
51.	S. C. Rustagi	Executive Vice President, Corporate EHS	4,509
52.	P. Sanyal	Vice President – Tribeni Operations, PSPD	2,647
53.	C. V. Sarma	General Manager - Finance, IBD	3,783
54.	P. Sengupta	Vice President – Finance & MIS, LRBD	3,431
55.	S. K. Singh	Executive Vice President - Manufacturing, PSPD	4,500
56.	S. Sivakumar	Divisional Chief Executive, IBD / Agri Business	5,204
57.	R. Sridhar	Vice President – HRD & Public Affairs, ILTD	4,526
58.	B. Sumant	General Manager - Operations, ITD	3,894
59.	K. S. Suresh	Company Solicitor	5,294
60.	P. K. Talwar	Executive Vice President - Finance, PSPD	4,500
61.	R. Tandon	Executive Vice President, Corporate Finance	4,875
62.	S. R. Tulasi	Vice President – Human Resources, PSPD	2,353
63.	S. H. Venkatramani	Head of Corporate Communications	3,190
64.	S. Wanchoo	General Manager - Brands, ITD	3,652

ii. Any other employee who received a grant in any one year of Options amounting to 5% or more of the Options granted during that year. : None

iii. Identified employees who were granted Options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. : None

k) Diluted Earnings per Share (EPS) pursuant to issue of shares on exercise of Options calculated in accordance with International Accounting Standard (IAS) 33. : Rs. 64.22

Expansion of abbreviations used:

ITD	-	India Tobacco Division
ILTD	-	Indian Leaf Tobacco Development Division
IBD	-	International Business Division
PSPD	-	Paperboards & Specialty Papers Division
PPD	-	Packaging & Printing Division
LRBD	-	Lifestyle Retailing Business Division
FD	-	Foods Division
PPB	-	Packaging & Printing Business
GGSB	-	Greeting, Gifting & Stationery Business

On behalf of the Board

Y.C. DEVESHWAR *Chairman*
K. VAIDYANATH *Director*

Kolkata, 28th May, 2004

ITC Limited

ANNEXURE TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2004

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout the year and in receipt of remuneration aggregating Rs, 24,00,000/- or more per annum.								
Ahmad S.M.	50	Exec.V.P., Marketing (ITD)	33,52,913	14,70,663	M.A.	27	06.03.1980	ANZ Grindlays Bank, Plc.
Banerjea P.	51	Exec.V.P., Finance & MIS (ITD)	25,21,313	11,50,116	B.Sc., M.Sc., F.C.A., F.I.C.W.A.	24	01.10.1982	Shaw Wallace & Co. Ltd., Financial Accountant
Basu S.	52	Exec.V.P., Internal Audit	25,48,613	10,63,937	A.C.A., F.C.A. (Eng. & Wales)	34	02.01.1978	Whinney Murray & Co., London, Audit Asst.
Chand A.	39	G.M., Marketing & Retail Operations (LRBD)	25,19,726	11,14,778	B.A., M.B.A.	16	01.06.1988	Godfrey Philips (I) Ltd., Mktg. Exec.
Chatterjee B.B.	51	Exec. V.P. & Co. Secretary	35,30,467	16,37,394	B.Com.(Hons.), F.C.A., F.C.S., LL.B.	26	16.05.1983	Wacsgen, Deputy Mgr.
Chatterjee P.	54	Exec.V.P. & Corporate Financial Controller	29,31,303	12,41,243	B.Com.(Hons.), F.C.A.	32	16.09.1974	Macneill & Barry Ltd., Accountant.
Dar C.	48	Div. Chief Exec., (LRBD)	33,42,521	15,48,254	B.Tech.(Hons.), P.G.D.M.	25	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Deveshwar Y.C.	57	Executive Chairman	1,86,74,964	82,98,309	B.Tech. (Mech.)	35	11.02.1994	Air India Ltd., Chairman & M.D.
Dhobale P.V.	48	Div. Chief Exec., (PSPD)	35,19,625	15,42,873	B.Tech. (Chem.)	27	01.07.1977	Nil*
Ganesh D.	54	Chief Engineer (ITD)	24,71,314	10,53,187	B.E., D.M.S., Memb. Inst of Standards Engrs.	31	19.11.1979	Metal Box (I) Ltd., Foreman
Grant K.N.	46	Div. Chief Exec. (ITD)	46,33,851	18,26,814	B.A.(Hons.), M.B.A.	25	02.06.1980	DCM Ltd., Mgmt. Trainee
Gupta P.	47	G.M., Corporate Taxation	24,45,071	12,72,558	B.Com.(Hons.), A.C.A., D.M.A.(I.C.A.)	24	15.02.1989	Hindustan Lever Ltd., Group Audit Mgr.
Jacob R.G.	58	Head of Corporate Quality & Product Development	46,53,259	18,20,016	B.Tech.	37	15.09.1967	Nil
Janardhana Reddy S.	55	Div. Chief Exec. (ILTD)	28,49,915	11,72,879	B.Sc.	31	27.12.1972	Nil
Keshava S.	45	G.M., New Business Development (ITD)	31,34,295	8,75,873	B.Com.(Hons.)	20	03.10.1989	S.A.S. Chemicals Pvt. Ltd.
Lall U.	53	Exec.V.P., Tobacco & Regulatory Affairs (ITD)	29,11,838	12,72,983	B.A.(Hons.)	32	03.01.1972	PARCO, Officer on Spl. Duty
Malhotra B.N.	58	Exec. V.P., Projects	28,12,836	11,97,882	B.Tech., M.Tech., P.G. Dip in Soil Mec.	32	17.03.1975	ITDC., Asst. Engr.
Mukerji A.K.	45	Services on Loan to Subsidiary Co.	26,25,046	11,81,804	B.Com.(Hons.), A.C.A.	22	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer
Naware R.S.	54	Div. Chief Exec. (FD)	43,06,707	15,52,016	B.Tech., M.M.S.	31	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee
Nayak A.	52	Exec. V.P., Corporate Human Resources	47,43,789	20,79,803	B.Sc., P.G.D.I.R.	31	14.05.1973	Nil
Parasuram R.	45	V.P., Finance (ITD)	25,76,256	10,17,620	B.Com.(Hons)., A.C.A.	22	15.09.1982	Nil
Pathak A.	44	G.M., Finance (FD)	30,07,968	11,03,295	B.Com.(Hons)., F.C.A.	21	20.06.1983	Nil
Raghavaiah K.V.	57	G.M., Corporate Human Resources	26,55,615	11,67,742	B.A., P.G.D.P.M., I.R. & L.L.	38	01.09.1985	Coromandel Fertilisers Ltd., Asst. Mgr. (Pers. & Ind. Relations).
Rai R.K.	41	Senior Trader (IBD)	25,38,118	11,66,473	B.A.(Mktg.), P.G.D in Export & Imports	21	16.08.1990	Britannia Industries Ltd., Commercial Officer.
Ramaswamy T.V.	52	Exec. V.P., Technical & H.R. (ITD)	33,68,516	14,33,667	B.E., M.M.S.	30	01.07.1974	Nil
Rangrass S.	43	G.M., Human Resources (ITD)	58,83,356	10,50,823	B.Tech.	22	01.07.1982	Nil
Rehman S.S.H.	60	Executive Director	91,62,289	36,10,023	Graduate, Indian Army	40	21.11.1997	ITC Hotels Ltd., Managing Director
Sarkar A.C.	63	Exec. V.P., Industry Affairs	34,44,296	13,63,666	B.A.(Hons.)	44	01.12.1960	Hindustan Steel Ltd., Graduate Apprentice
Singh A.	59	Executive Director	83,02,968	36,32,040	B.Tech.(Hons.)	36	01.03.1968	Nil
Singh S.K.	47	Exec. V.P., Mftg. (PSPD)	25,66,757	11,49,400	B.Tech. (Chem)	27	26.06.1977	Nil*

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Sivakumar S.	43	Div. Chief Exec. (IBD/Agri Business)	37,36,178	18,09,664	B.Sc., P.G. Dip. in Rural Mgmt.	21	18.09.1989	Gujarat Co-op Oil Seeds Growers' Federation Ltd., Mgr. Mktg.
Srinivasan R.	52	Div. Chief Exec. (PPD)	46,89,295	18,55,245	B.Tech.(Hons.)	30	10.09.1974	Nil
Sumant B.	40	G.M., Operations (ITD)	24,13,781	10,63,697	B.E.	18	20.01.1986	Nil
Suresh K.S.	44	Company Solicitor	32,70,151	14,68,408	B.A., B.L., P.G.D.P.M., I.R. & L.W.	21	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Talwar P.K.	56	Exec. V.P., Finance (PSPD)	26,77,646	11,68,441	B.Sc., F.C.A.	32	26.06.1989	Nil*
Tandon R.	50	Exec. V.P., Corporate Finance	29,23,118	12,87,318	B.Sc., A.C.A.	26	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Vaidyanath K.	54	Executive Director	66,73,164	29,06,993	B.Com.(Hons.), M.B.A.	31	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K.S.	64	Sr. V.P., Corporate Affairs	51,68,723	22,12,523	B.Com. (Hons.)	41	08.10.1982	T.V.S. Southern Roadways Ltd., Resident Mgr.
Verma S.	45	Services on Loan to Subsidiary Co.	31,53,060	14,62,030	B.E.	22	01.11.1981	Nil

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed for a part of the year and in receipt of remuneration aggregating Rs. 2,00,000/- or more per month.								
Ahmed O.	53	Chief of Product Development (ITD)	38,18,752	19,29,556	B.Tech., (Hons.)	31	15.11.1972	TISCO Ltd., Grad. Engineer
Kumar V.K.A.	39	Business Accountant	2,10,476	1,69,165	B.Com.(Hons.), A.C.A	12	15.01.1991	Nil
Peraiah N.	58	Product Mgr. (ILTD)	4,86,089	3,93,307	B.Sc., M.Sc.	26	01.03.1977	Nil
Weller G.	45	Distribution Mgr. (N) (ITD)	3,71,466	2,48,892	B.Com.(Hons.)	22	01.06.1981	Nil

Abbreviations denote :

ITD	:	India Tobacco Division
PPD	:	Packaging & Printing Division
PSPD	:	Paperboards & Specialty Papers Division
LRBD	:	Lifestyle Retailing Business Division
IBD	:	International Business Division
ILTD	:	Indian Leaf Tobacco Development Division
FD	:	Foods Division

* Previously employed with ITC Bhadrachalam Paperboards Limited which has since merged with the Company with effect from 13th March, 2002.

Notes :

1. Gross remuneration comprises salary, allowances, medical reimbursement, leave travel assistance, Company's contribution to provident, pension and gratuity funds, monetary value of other perquisites computed on the basis of the Income-tax Act and Rules, leave encashment and performance bonus, where applicable. With respect to those employed for a part of the year, such remuneration also includes leave encashment upon separation.
2. Net remuneration comprises cash income less : a) income tax and surcharge deducted at source.
   b) manager's own contribution to Provident Fund.
3. All appointments are/were contractual in accordance with terms and conditions as per Company rules.
4. None of the above employees is a relative of any Director of the Company.

On behalf of the Board

Y.C. DEVESHWAR *Chairman*
K. VAIDYANATH *Director*

Kolkata, 28th May, 2004

ANNEXURE TO THE REPORT OF THE DIRECTORS

CONSERVATION OF ENERGY

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT

a) Energy conservation measures taken :
  i) (a) Optimising pump and motor ratings across all units.
     (b) Better power factor management across all units.
     (c) Replacement of existing electric motors with energy efficient motors across all units.
     (d) Use of high frequency ballast and energy efficient lamps across all units.
  ii) (a) Installation of tri-disc refiners in place of double disc refiners in Paper Machine I at Bhadrachalam Unit.
     (b) Installation of variable frequency drives for Boiler 4 forced draft fans at Bhadrachalam Unit.
     (c) Frequency control at turbine generator end in Tribeni.
  iii) Modification of boiler firing systems to achieve higher combustion efficiencies in cigarette manufacturing units.
  iv) Auto conditioning systems in conditioning cylinder and improved lamina redrier controls in green leaf threshing units.
  v) Rationalisation of compressed air system in packaging and printing factories.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :
  i) (a) Continuing system of rigorous energy audits.
     (b) Replacement of existing pumps and motors with higher efficiency ones.
  ii) (a) Biomass gasification at Bhadrachalam Unit.
     (b) Changes in steam system for Soda Recovery Boiler 3 in Bhadrachalam and Paper Machine 4 in Tribeni mills.
     (c) Installation of high-pressure boiler and turbine at Kovai paper mill.
  iii) (a) Installation of higher efficiency chillers in cigarette manufacturing plants.
     (b) Installation of solar water heating system in cigarette manufacturing plants.
  iv) Reuse of treated waste water in green leaf threshing plants.
  v) Installation of timer controls and higher efficiency light fittings in packaging and printing factories.

c) Impact of measures of (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :
Energy conservation measures have helped the Company in its drive towards sustainability. Direct energy costs have reduced by over Rs.150 lakhs per annum because of measures taken.

A) POWER AND FUEL CONSUMPTION

	For the Year ended 31st March, 2004	For the Year ended 31st March, 2003
Relating to Paperboards & Paper		
1. Electricity (Excluding Consumption in Colony)		
a) Purchased		
Units (KWH in Lakhs)	**247**	165
Total Amount (Rs. in Lakhs)	**1091**	801
Rate / Unit (Rs.)	**4.42**	4.86
b) Own Generation		
i) Through Diesel Generation Unit	**30**	27
Units per Litre of Diesel Oil	**2.96**	2.96
Cost / Unit (Rs.)	**7.59**	6.80
ii) Through Steam Turbine/Generator		
Units (KWH in Lakhs)	**2822**	2774
Units per Kg. of Coal	**1.33**	1.63
Cost / Unit (Rs.)	**1.68**	1.20

2. Coal (Specify Quantity & Where Used)
B/C/D/E/F Grade Coal Used.

	For the year ended 31st March, 2004			For the year ended 31st March, 2003		
	Process	**Power**	**Total**	Process	Power	Total
Quantity (M.T.)	**142955**	**168231**	**311186**	150692	170438	321130
Total Cost (Rs.in Lakhs)	**—**	**—**	**4858**	—	—	4887
Average Rate (Rs.per M.T.)	**—**	**—**	**1561**	—	—	1522
3. Furnace Oil						
Quantity (KL)			**8174**			1705
Total Amount (Rs. in Lakhs)			**928**			184
Average Rate (Rs. / KL)			**11358**			10763
4. Others / Internal Generation						
Quantity (M.T.)			**980**			N.A.
Total (Rs. in Lakhs)			**12**			—
Rate/Unit (Rs.)			**1190.12**			—

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2004	For the Year ended 31st March, 2003
Products (Paper in M.T.)	**234593**	233237
Electricity (KWH)	**1236**	1271
Coal B/C/D/E/F Grade (M.T.)	**0.57**	0.65
Furnace Oil (Litre)	**33**	3.69
Others - De Oiled Bran/Saw Dust etc. (M.T.)	**0.004**	—

TECHNOLOGY ABSORPTION

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT

Research & Development

1. **Specific areas in which R&D was carried out by the Company:**
  i) (a) Substitution of imported pulp with mill produced elemental chlorine free pulp.
     (b) Development of hybrid eucalyptus for superior fibre properties.
  ii) Development of advanced breeding lines / CMS hybrids in leaf tobacco in the northern light soils of Andhra Pradesh and Karnataka light soils.
  iii) (a) Round corner and pillow pack for cigarette packaging.
     (b) Substitution of toluene by ethylacetate as solvent.

2. **Benefits derived as a result of the above R&D :**
  i) (a) Cost reduction, import substitution and better environmental performance.
     (b) Eurograndis and Euroteriticornis hybrids developed and undergoing field trials.
  ii) Higher potential yields and enhancement of smoke characteristics.
  iii) (a) Development of new international pack designs for cigarettes to secure competitive edge.
     (b) Better environmental performance.

3. **Future Plan of Action :**
   - i) (a) Development of boards for packaging of foods and soaps/detergents.
     (b) Continue research on genetic improvement in pulpwood species such as eucalyptus, subabul and bamboo.
   - ii) (a) Develop flexibles packaging and enhance manufacture of Printed Cork Tippings.
     (b) Development of new varieties of inks, varnishes and adhesives.
   - iii) (a) To carry out multi location trials with advanced tobacco plant breeding lines and cytoplasmic male sterile hybrids in microzones to work out specific production practices.
     (b) Develop methodologies for capture of tobacco flavour attributes.

	For the year ended 31st March, 2004
4. Expenditure on R & D :	**(Rs. in Lakhs)**
i) Capital	**937**
ii) Recurring	**2375**
iii) Total	**3312**
iv) Total R & D Expenditure as a % of total turnover	**0.28%**

Technology Absorption, Adaptation and Innovation

- i) (a) On line Web inspection system and dryers cleaning system on paperboard machines.
  (b) Optivision manufacturing execution system at Bhadrachalam factory.
  (c) Limekiln for reburning of lime sludge in Bhadrachalam factory.
- ii) (a) Print registered wrapping film system for cigarettes.
  (b) Foreign matter detection capability during primary tobacco processing.
- iii) (a) Schiavi 5 colour Gravure printing machine (Reel to Reel) & Goebel Slitter/Rewinder for manufacture of PCT, were installed/commissioned.
  (b) Sprintera Cutter/Creaser with in-line stripping/ blanking installed/commissioned.
  (c) Shoulder Box manufacturing line installed/ commissioned.
  (d) BMA Foil stamping machine installed/ commissioned.
  (e) Image control installed/commissioned on Heidelberg machine.

Benefits Derived

- i) (a) Improved product quality.
  (b) Improved conversion efficiency and customer service.
  (c) Better environmental performance by reducing solid waste and improving resource usage efficiency.
- ii) (a) Developing international quality products.
  (b) Reducing wastage and better environmental performance.
- iii) (a) Provides additional capacity to manufacture and supply PCT requirements of cigarette factories and also capacity to handle films and lamination business with additional 4 more decks planned in next year.
  (b) Enables handling very tight Print-to-Cut tolerances on Flat bed route and also Round edge, Bevelled edge and Pillow packs with international benchmarking standards. This has also eliminated Cutter/Creaser capacity bottlenecks compared to previous year and also minimised material being sent out for stripping/sorting.
  (c) Capacity to handle Shoulder Box export requirements increasing export earnings potential.
  (d) In-house foil stamping facility achieved. This provides capacity to handle niche markets.
  (e) Automatic inking control and make ready time reduction on Heidelberg machines.

On behalf of the Board

Y. C. DEVESHWAR *Chairman*
Kolkata, 28th May, 2004 K. VAIDYANATH *Director*

CERTIFICATE OF COMPLIANCE FROM AUDITORS AS STIPULATED UNDER CLAUSE 49 OF THE LISTING AGREEMENT OF THE STOCK EXCHANGES IN INDIA

CERTIFICATE

To the Shareholders

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2004, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March, 2004, no investor grievances are pending against the company as per the records maintained by the company and presented to the Investor Services Committee.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For A. F. FERGUSON & Co.
Chartered Accountants
A. K. MAHINDRA
Mumbai, May 28, 2004 *Partner*